

STATEMENT OF RESPONSIBILITY

ANNUAL FINANCIAL REPORT FISCAL YEAR 2017

The members of the Board of Directors of Endesa S.A., in accordance with Article 8 of Royal Decree 1362/2007, of October 19, state that, to the best of their knowledge, the Individual and Consolidated Annual Financial Statements for the fiscal year ending on December 31, 2017, drafted at its meeting on February 26, 2018, were issued in accordance with all applicable accounting principles and offer a true and fair view of the equity, financial position, earnings and cash flow of Endesa S.A. and the companies within its consolidation perimeter, and that the individual and consolidated management reports for fiscal year 2017 provide a faithful analysis of its business performance and results and of the financial position of Endesa, S.A. and the companies within its consolidation perimeter as a whole, together with a description of the main risks and uncertainties faced thereby.

Borja Prado Eulate Chairman	Francesco Starace Vice Chairman
José Damián Bogas Gálvez Chief Executive Officer	Alejandro Echevarría Busquet Director
Ignacio Garralda Ruiz de Velasco Director	Maria Patrizia Grieco Director
Francisco de Lacerda Director	Alberto de Paoli Director
Helena Revoredo Delvecchio Director	Miguel Roca Junyent Director
Enrico Viale Director	

Madrid, February 26, 2018

Audit Report on Financial Statements
issued by an Independent Auditor

ENDESA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2017

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 22)

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Shareholders of
ENDESA, S.A.

Report on the financial statements

Opinion

We have audited the financial statements of ENDESA, S.A. (the Company), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of non-current investments in Group companies and associates

Description At December 31, 2017, the Company had recognized in non-current assets investments in the equity of group companies and associates amounting to 14,793 million euros.

The Company recognizes impairment losses whenever there is objective evidence that the carrying amount of said investments may not be recoverable. The amount of the impairment loss is the difference between the investment's carrying and recoverable amounts.

Recoverable amount is determined using complex estimates based on the application by Company Management of criteria, judgments, and hypotheses. We have determined this matter to be a key audit issue due to the significance of the amounts and the complexity inherent in assigning value to the key hypotheses considered and to changes in the related assumptions.

The information related to the criteria applied by Company Management and the principal hypotheses used in determining impairment losses from investments in group companies and associates are described in Note 4.d) to the accompanying financial statements.

Our response Our audit procedures include, among others, the following:

- ▶ Understanding the processes established by Company Management to determine impairment on non-current investments in group companies and associates including assessment of the design and implementation of relevant controls associated to their recognition process.
- ▶ Analyzing indications of impairment and, where necessary, reviewing the model used by Company Management to determine recoverable amount in collaboration with our valuation specialists, focusing particularly on the model's mathematical coherence, the reasonableness of projected cash flows, discount rates, and long-term growth rates.
- ▶ Reviewing the disclosures in the financial statements in accordance with the applicable financial reporting framework.

Changes in IT systems

Description The Company's IT system is integrated by a group of complex IT applications which are essential in the Company's diverse operations, and fundamental in treating and generating financial information. In 2017, a transformation was made to optimize IT application maps designed to better integrate and standardize systems. This IT transformation process is relevant for our audit due to its impact on the accounting of transactions, as well as the presentation of the financial information.

Our response In collaboration with our IT specialists, our audit procedures include, among others, the following:

- ▶ We held conversations with Company Management to gain a clear understanding of the modifications made to the applications map and affected process, paying special attention to those which have a relevant impact on the obtainment and handling of financial information.
- ▶ We have carried out procedures to verify the correct migration of the financial data to the new applications.
- ▶ We have performed procedures to evaluate the design and effectiveness of general controls established by the Company Management on its IT systems, including those on access and application changes, relevant automatic controls of applications, and others which mitigate risks identified as a result of the transformation process

Other information: management report

Other information refers exclusively to the 2017 management report, the preparation of which is the responsibility of the Company's Directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or, where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and, if not, disclose this fact.
- b) A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Company obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the specific information referred to in paragraph a) above is provided in the management report, and that the remaining the information contained therein is consistent with that provided in the 2017 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the Directors and the Audit and Compliance Committee for the financial statements

The Directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- ▶ Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit and Compliance Committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on February 26, 2018.

Term of engagement

The ordinary general shareholders' meeting held on April 26, 2017 appointed us as auditors for 3 years, commencing for the year ending December 31, 2017.

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since December 31, 2011.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

José Agustín Rico Horcajo

February 26, 2018

ENDESA, S.A.

**Financial Statements
for the year ended 31 December 2017**

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A.

STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2017 AND 2016

Millions of Euros

	Note	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS		15,101	15,112
Intangible assets	5	125	117
Patents, licences, trademarks and similar		6	5
Software		119	112
Property, plant and equipment	6	1	2
Facilities and other property, plant and equipment		1	2
Non-current investments in Group companies and associates	8 and 18.2	14,803	14,793
Equity instruments		14,793	14,793
Derivatives	14	10	-
Non-current financial investments	8	40	54
Equity instruments		5	5
Loans to third parties		5	5
Derivatives	14	-	7
Other financial assets		30	37
Deferred tax assets	15.6	132	146
CURRENT ASSETS		299	267
Trade and other receivables		159	71
Other receivables		122	37
Other receivables from Group companies and associates	18.2	35	32
Receivable from employees		2	1
Other receivables from public administrations	15.8	-	1
Current investments in Group companies and associates	8 and 18.2	95	143
Loans to companies		62	142
Derivatives	14	33	1
Current financial investments	8	15	32
Loans to third parties		11	10
Derivatives	14	4	21
Other financial assets		-	1
Cash and cash equivalents		30	21
Cash in hand and at banks		30	21
TOTAL ASSETS		15,400	15,379

The accompanying notes 1 to 22 form an integral part of the statements of financial position at 31 December 2017 and 2016.

ENDESA, S.A.
STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2017 AND 2016

Millions of Euros

	Note	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
EQUITY		8,044	7,961
Capital and reserves	10	8,044	7,961
Share capital		1,271	1,271
Registered capital		1,271	1,271
Share premium		89	89
Reserves		1,445	1,442
Legal and statutory reserves		254	254
Other reserves		1,191	1,188
Prior years' profit and loss		4,489	4,481
Retained earnings		4,489	4,481
Profit for the year		1,491	1,419
Interim dividend	3 and 10.4	(741)	(741)
NON-CURRENT LIABILITIES		5,312	5,332
Non-current provisions	11	323	370
Non-current employee benefits:		73	82
Provisions for workforce restructuring costs		190	241
Other provisions		60	47
Non-current debts	12	743	478
Bank borrowings		731	474
Finance lease payables		-	1
Derivatives	14	9	-
Other financial liabilities		3	3
Non-current debts to Group companies and associates	12 and 18.2	4,212	4,450
Debts to Group companies and associates		4,211	4,443
Derivatives	14	1	7
Deferred tax liabilities	15.7	34	34
CURRENT LIABILITIES		2,044	2,086
Current provisions	11	54	55
Provisions for workforce restructuring costs		45	47
Other provisions		9	8
Current debts	12	277	292
Bank borrowings		19	65
Finance lease payables		1	1
Derivatives	14	32	1
Other financial liabilities		225	225
Current debts to Group companies and associates	12 and 18.2	1,522	1,602
Debts to Group companies and associates		977	1,061
Derivatives	14	4	21
Other financial liabilities		541	520
Trade and other payables		191	137
Group companies and associates suppliers	18.2	93	24
Other payables		74	88
Personnel (salaries payable)		19	19
Other payables to public administrations	15.8	5	6
TOTAL EQUITY AND LIABILITIES		15,400	15,379

The accompanying notes 1 to 22 form an integral part of the statements of financial position at 31 December 2017 and 2016.

ENDESA, S.A.
INCOME STATEMENT
FOR THE YEARS ENDED
AT 31 DECEMBER 2017 AND 2016

Millions of Euros

	Note	2017	2016
CONTINUING OPERATIONS			
Revenue	16.1	1,763	1,807
Rendering of services		260	213
Dividends from Group companies and associates	8.1.1 and 18.1	1,503	1,594
Self-constructed assets		1	3
Procurements		(1)	(15)
Consumption of raw materials and other consumables		(1)	(1)
Work performed by other companies		-	(14)
Other operating income		17	31
Non-trading and other administrative income		17	31
Personnel expenses	16.3	(145)	(263)
Salaries and wages, and similar		(120)	(125)
Other employee benefits		(31)	(32)
Provisions		6	(106)
Other operating expenses	16.4	(225)	(165)
External services		(113)	(105)
Taxes other than income tax		(1)	(1)
Other operating expenses		(111)	(59)
Depreciation and amortisation of non-current assets	5 and 6	(29)	(30)
Provision surpluses		-	33
Impairment losses in Group companies and associates	8, 16.2 and 18.1	-	94
Other gains/losses	16.5	222	-
PROFIT FROM OPERATIONS		1,603	1,495
Financial income	16.6	28	18
From marketable securities and other non-current credits		28	18
Group companies and associates	18.1	6	1
Other		22	17
Finance Expenses	16.6	(145)	(178)
Interest on borrowings from Group companies and associates	18.1	(132)	(157)
Interest on debts to third parties		(9)	(7)
Provision adjustments		(4)	(14)
Change in fair value of financial instruments		2	1
Trading portfolio and other securities		2	1
Exchange gains/(losses)	9	(1)	1
NET FINANCIAL PROFIT/(LOSS)		(116)	(158)
PROFIT BEFORE TAX		1,487	1,337
Income tax	15	4	82
PROFIT AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS		1,491	1,419
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS		-	-
PROFIT FOR THE YEAR		1,491	1,419

Notes 1 to 22 in the accompanying notes to the financial statements form an integral part of the income statement for the years ended 31 December 2017 and 2016.

ENDESA, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Millions of Euros

	Note	2017	2016
PROFIT FOR THE YEAR		1,491	1,419
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
From actuarial gains and losses and other adjustments	11.1	4	(16)
Income tax effect	15	(1)	4
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		3	(12)
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		-	-
TOTAL RECOGNISED INCOME/(EXPENSES)		1,494	1,407

The accompanying Notes 1 to 22 are an integral part of the statements of recognised income and expense for the years ended 31 December 2017 and 2016.

ENDESA, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Millions of Euros

31 December 2017						
Note	Capital and reserves					Total equity
	Share capital (Note 10.1)	Share premium (Note 10.2)	Reserves and prior years' profit and loss (Notes 10.3 and 10.4)	Profit for the year (Note 3)	(Interim dividend) (Note 3)	
Balance at 31 December 2016	1,271	89	5,923	1,419	(741)	7,961
TOTAL RECOGNISED INCOME/(EXPENSES)	-	-	3	1,491	-	1,494
Transactions with shareholders	-	-	-	-	(741)	(741)
Dividends paid 3 and 10.5	-	-	-	-	(741)	(741)
Other changes in equity	-	-	8	(1,419)	741	(670)
Distribution of profit 3	-	-	8	(1,419)	741	(670)
Balance at 31 December 2017	1,271	89	5,934	1,491	(741)	8,044

Millions of Euros

31 December 2016						
Note	Capital and reserves					Total equity
	Share capital (Note 10.1)	Share premium (Note 10.2)	Reserves and prior years' profit and loss (Notes 10.3 and 10.4)	Profit for the year (Note 3)	(Interim dividend) (Note 3)	
Balance at 31 December 2015	1,271	89	5,886	1,135	(424)	7,957
TOTAL RECOGNISED INCOME/(EXPENSES)	-	-	(12)	1,419	-	1,407
Transactions with shareholders	-	-	-	-	(741)	(741)
Dividends paid 3 and 10.5	-	-	-	-	(741)	(741)
Other changes in equity	-	-	49	(1,135)	424	(662)
Distribution of profit 3	-	-	49	(1,135)	424	(662)
Balance at 31 December 2016	1,271	89	5,923	1,419	(741)	7,961

The accompanying notes 1 to 22 to the financial statements are an integral part of the statements of total changes in equity for the years ended 31 December 2017 and 2016.

ENDESA, S.A.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
31 DECEMBER 2017 AND 2016

Millions of Euros

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		1,549	1,433
Profit before tax		1,487	1,337
Adjustments for:		(1,353)	(1,448)
Income from dividends	8.1, 16.1 and 18.1	(1,503)	(1,594)
Depreciation and amortisation of non-current assets	5 and 6	29	30
Changes in provisions		6	54
Proceeds from retirements and sale of financial instruments	8.1 and 18.1	-	(94)
Financial income	16.6	(28)	(18)
Finance expenses	16.6	145	178
Change in the fair value of financial instruments		(2)	(1)
Other adjustments (net)		-	(3)
Changes in operating assets and liabilities		(10)	21
Other cash flows from operating activities		1,425	1,523
Interest paid		(132)	(165)
Dividends received		1,503	1,664
Interest received		6	13
Income tax received/(paid)		99	59
Other proceeds from/(payments) for operating activities		(51)	(48)
CASH FLOWS FROM INVESTING ACTIVITIES		(24)	122
Payments for investments		(32)	(42)
Property, plant and equipment and intangible assets		(32)	(29)
Other financial assets		-	(13)
Proceeds from sale of investments		8	164
Group companies and associates		-	127
Other financial assets		8	37
CASH FLOWS USED IN FINANCING ACTIVITIES		(1,516)	(1,546)
Proceeds from and (payments) for financial liability instruments		(105)	(460)
Issue		305	4,244
Redemption and repayment		(410)	(4,704)
Dividends and interest on other equity instruments paid		(1,411)	(1,086)
Dividends	3 and 10.5	(1,411)	(1,086)
NET INCREASE IN CASH AND CASH EQUIVALENTS		9	9
CASH AND CASH EQUIVALENTS AT 1 JANUARY		21	12
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		30	21

The accompanying Notes 1 to 22 to the financial statements are an integral part of the statements of cash flows for the years ended 31 December 2017 and 2016.

ENDESA, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2017

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(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2017

1. Company activity and financial statements.

ENDESA, S.A. (hereinafter "the Company") was incorporated as a company limited by shares under Spanish law on 18 November 1944 under the name Empresa Nacional de Electricidad, S.A. and changed its name to ENDESA, S.A. pursuant to a resolution adopted by the shareholders at the General Meeting of shareholders on 25 June 1997. Its registered offices and headquarters are at Calle Ribera del Loira 60, Madrid.

Its corporate purpose is the electricity business in all its various industrial and commercial areas; the exploitation of primary energy resources of all types; the provision of industrial services, particularly in the areas of telecommunications, water and gas and those preliminary or supplementary to the Group's corporate purpose, and the management of the corporate Group, comprising investments in other companies.

The Company carries out its corporate objects in Spain and abroad directly or through its investments in other companies.

To comply with Electricity Sector Law 24/2013 of 26 December 2013, derogating from previous Law 54/1997 of 27 November 1997 on the electricity sector, ENDESA, S.A. underwent a corporate reorganisation to separate its various electricity activities. Since then, ENDESA, S.A.'s activity has focused primarily on administration and services for its business group, comprising the investments detailed in these financial statements.

The Company's shares are officially admitted to trading on the Spanish Stock Exchanges.

The Company's financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 26 February 2018 and will be submitted for approval by the General Meeting of Shareholders. They are expected to be approved with no changes. The financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 22 February 2017 and approved by the shareholders at the General Meeting on 26 April 2017 and filed with the Madrid Mercantile Registry.

The Company holds interests in subsidiaries, jointly-controlled entities and associated companies. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. In accordance with generally accepted accounting principles in Spain, consolidated financial statements must be prepared to present truly and fairly the financial position of the Group, the results of operations and changes in its equity and cash flows. Details of investments in Group companies, jointly-controlled entities and associated companies are included in Note 8.1.

On 26 February 2018, the directors authorised for issue the consolidated financial statements of ENDESA, S.A. and subsidiaries (hereinafter "ENDESA") for the year ended 31 December 2017, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU-IFRS). The consolidated financial statements for the year ended 31 December 2016 of ENDESA, S.A. and its subsidiaries, which were prepared by the Board of Directors on 22 February 2017 and approved by the shareholders at the General Meeting of shareholders on 26 April 2017, are filed at the Madrid Mercantile Registry.

The key figures from the consolidated financial statements for 2017 and 2016 of ENDESA, S.A. and subsidiaries are as follows:

Millions of Euros

	31 December 2017	31 December 2016
Total assets	31,037	30,960
Equity	9,233	9,088
Of the Parent	9,096	8,952
Of Non-Controlling Interests	137	136
Revenue	20,057	18,979
Profit after tax for the period from continuing operations	1,473	1,412
Profit after tax for the period from discontinued operations	-	-
Profit for the year	1,473	1,412
Of the Parent	1,463	1,411
Of Non-Controlling Interests	10	1

At 31 December 2017 and 2016, the ENEL Group held 70,101% of the share capital of ENDESA S.A. through ENEL Iberia, S.L.U. giving it control of the company (see Note 10.1).

The registered offices of the companies ENEL Iberia, S.L.U. and ENEL, S.p.A. are located at Calle Ribera del Loira, 60, E-28042 Madrid (Spain) and Viale Regina Margherita, 137, I-00198 Rome (Italy), respectively.

The financial statements of ENEL Iberia, S.L.U. for the year ended 31 December 2016, prepared on 17 March 2017 and approved by the sole shareholder on 28 April 2017, are filed with the Madrid Mercantile Registry.

The consolidated financial statements of ENEL, S.p.A. and its subsidiaries for the year ended 31 December 2016, parent company of ENDESA, S.A., were approved by the shareholders at the General Meeting of shareholders held on 4 May 2017 and filed with the Rome and Madrid Mercantile Registries.

2. Basis of presentation of the financial statements

2.1. True and fair presentation

The financial statements for the year ended 31 December 2017 are presented in accordance with Law 16/2007 of 4 July 2007, on the reform and adaptation of accounting legislation for harmonisation with EU law, and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007 and the amendments thereto established by Royal Decree 1159/2010 of 17 September 2010, and by Royal Decree 602/2016, of 2 December 2017.

The financial statements present truly and fairly the equity and financial position of the Company at 31 December 2017, and the results of its operations, changes in equity and cash flows for the years then ended, and have been prepared on the basis of the Company's accounting records.

2.2. Accounting principles

The accounting principles and policies applied in preparing these financial statements are those set out in the Spanish General Chart of Accounts and are summarised in Note 4. All mandatory accounting principles with an effect on equity, the financial position and profit or loss were applied in preparing these financial statements.

2.3. Responsibility for information and estimates.

The Company's directors are responsible for the information included in the financial statements.

In preparing the financial statements the company's directors made estimates to measure certain assets, liabilities, income, expenses and commitments included therein. These estimates were essentially as follows:

- Measurement of the Company's investments in equity instruments of Group companies, associates and jointly-controlled entities to determine any impairment losses (see Notes 4d and 8.1).

- Assumptions used in the actuarial calculation of liabilities and obligations to employees and the leaving dates for employees involved in personnel restructuring plans (see Notes 4f and 11).
- Useful lives of intangible assets and property, plant and equipment (see Notes 4a and 4b).
- Measurement of financial assets to determine any impairment losses (see Notes 4d and 8).
- Assumptions used to calculate the fair value of financial instruments (see Notes 8, 12 and 14).
- Interpretation of existing or new electricity sector regulations, the final economic effects of which will ultimately depend on rulings by the authorities responsible for settlements. Certain rulings are pending at the date of authorisation of these financial statements.
- Certain figures for the electricity system, including those relating to other companies, which can be used to estimate the settlement of the subsidised electricity tariff -the "bono social"- (See Notes 11.3 and 16.4).
- The likelihood and amount of undetermined or contingent liabilities (see Notes 4f and 11).
- Taxable income (tax losses) of the Company to be declared to the taxation authorities in the future and used as the basis of income tax balances recognised in the accompanying financial statements (see Notes 4i and 15).

Although these estimates have been based on the best information available at the date of preparation of these financial statements on the events analysed, future events could require the estimates to be increased or decreased in subsequent years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related financial statements.

2.4. Going concern

At 31 December 2017, the Company has negative working capital of Euros 1,745 million as a result of its financial and cash management policy. In this regard, the Company's estimated statements of liquidity for the coming year, together with the undrawn amount on the Company's non-current lines of credit (see Note 13.3), provide assurance that the Company can obtain sufficient financial resources to continue to operate, realise its assets and settle its liabilities for the amounts shown in the accompanying statement of financial position. The Company's directors therefore prepared the accompanying financial statements on a going-concern basis.

2.5. Functional currency and presentation currency

The financial statements at 31 December 2017 are presented in millions of euros. The Company's functional and presentation currency is the euro.

2.6. Comparison of information.

The statement of financial position, income statement, statement of changes in equity, statement of cash flows and the notes thereto for the year ended 31 December 2017 include comparative figures forming part of the financial statements for the year ended 31 December 2016 approved by the General Meeting of shareholders on 26 April 2017.

2.7. Grouping of items

Certain items on the statement of financial position, income statement, statement of changes in equity and statement of cash flows are presented in groups for easier understanding, though significant data are set out as breakdowns in the notes to the financial statements.

3. Distribution of profit.

Proposed distribution of profit for 2017

The allocation of the result for 2017 proposed by the Board of Directors and to be submitted to the General Meeting of shareholders for approval is as follows:

Basis of distribution for 2017	Euros
to profit and loss: Profit	1,491,524,172.41
Total	1,491,524,172.41
Distribution	
Dividends ⁽¹⁾	1,463,195,425.69
To retained earnings	28,328,746.72
Total	1,491,524,172.41

(1) Maximum amount to be distributed based on Euros 1,382/share for all shares (1,058,752,117).

On 21 November 2017, the Board of Directors of ENDESA, S.A. decided to distribute an interim dividend out of 2017 profit of Euros 0.70 (gross) per share, for a total amount of Euros 741 million, which was paid on 2 January 2018 (see Note 10.4).

Pursuant to Article 277 of Royal Decree Law 1/2010 of 2 July 2010 approving the Consolidated Text of Spain's Corporate Enterprises Act, the provisional liquidity statement showing that the Company has sufficient liquidity to distribute this dividend is as follows:

Millions of Euros	From 1 November 2017 to 31 October 2018
Available at start of period	2,907
Cash in hand and at banks, and cash equivalents	13
Undrawn loans with group companies	2,894
Increases in cash	2,612
Ordinary activities	379
Financial transactions	2,233
Decreases in cash	(4,529)
Ordinary activities	(315)
Financial transactions	(4,214)
Available at end of period	990
Proposed interim dividend on 2017 results	741

This amount does not exceed the earnings obtained by the Company in 2017, less prior years' losses and the amount to be allocated to legal reserves and reserves specified in the bylaws, as well as the estimate of tax to be paid on these earnings.

Proposed distribution of profit for 2016

The distribution of the 2016 result approved at the General Meeting of shareholders was as follows:

Basis of distribution for 2016	Euros
to profit and loss: Profit	1,418,945,712.93
Total	1,418,945,712.93
Distribution	
Dividends ⁽¹⁾	1,411,316,571.96
To retained earnings	7,629,140.97
Total	1,418,945,712.93

(1) Maximum amount to be distributed based on Euros 1,333/share for all shares (1,058,752,117).

At the General Meeting of shareholders of ENDESA, S.A. held on of 26 April 2017 approval was given to pay a total dividend out of 2016 profit equivalent to Euros 1,333 (gross) per share. An interim dividend of Euros 0.7 per share (Euros 741 million) was paid on 2 January 2017, and a final dividend, charged to 2016 profit, amounting to Euros 0,633 gross per share (Euros 670 million) was paid on 3 July 2017 (see Note 10.4).

4. Main recognition and measurement criteria.

The main recognition and measurement criteria used in preparing the accompanying financial statements, in accordance with the Spanish General Chart of Accounts, were as follows:

a) Intangible assets.

Intangible assets are initially recognised at cost of acquisition or production, following the same principles for determining the production cost of inventories.

They are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over their useful lives which, in most cases, have been estimated at five years.

The residual value, useful life and amortisation method of intangible assets are reviewed at each year end. Any changes in initially established criteria are recognised as changes in estimates.

b) Property, plant and equipment.

Property, plant and equipment is stated at cost of acquisition or production, using the same criteria as for determining the cost of production of inventories. Property, plant and equipment is subsequently carried at cost net of any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment, less residual value where appropriate, are depreciated on a straight-line basis over their estimated useful lives, which are the periods of expected use.

Useful lives, residual value and depreciation methods are reviewed at least at the closing date of each year and adjusted prospectively, as appropriate.

The useful life of assets for the purposes of calculating depreciation are as follows:

Property, plant and equipment	Years of estimated useful life	
	2017	2016
Furniture	10	10
Other Property, Plant and Equipment	5-14	5-14

Costs of expansion, improvements that increase production capacity, improvements that substantially increase productivity or lengthen the estimated useful life of the asset are recognised as increases in the value of the asset.

Renewals may be capitalised if they meet the conditions to be recognised as an asset, i.e. they arise as a result of past events, and from which the Company expects to obtain economic benefits or returns in the future.

Regular maintenance, upkeep and repair expenses are recognised in the income statement and are expensed when incurred.

c) Leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. All other leases are classified as operating leases.

Finance leases in which the Company is the lessee are recognised at the commencement of the lease term. The Company recognises an asset according to its nature and a liability for the same amount, equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised as an expense and allocated to income over the lease term so as to obtain a constant interest rate each year applicable to the remaining balance of the liability.

The asset is depreciated in the same way as the other similar depreciable assets if there is reasonable certainty that the lessee will acquire title to the asset at the end of the lease term. If no such certainty exists, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Costs and income deriving from operating leases are taken to profit and loss when incurred.

Any collections or payments made on inception of an operating lease are treated as an advance collection or payment and recognised over the lease term as the benefits of the leased asset are transferred or received.

d) Financial instruments.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument.

A financial asset and a financial liability shall be offset when, and only when, the Company has a legally enforceable right to set off the recognised amounts and has the intention to simultaneously realise the asset and settle the liability on a net basis.

d.1. Financial assets except hedging derivatives and investments in the equity of Group companies, jointly-controlled entities and associates

1. Classification of financial assets.

For measurement purposes, the Company classifies its financial assets into the various categories in accordance with the characteristics of the instruments and its intentions at the time of initial recognition:

- Loans and receivables: are financial assets deriving from services rendered as part of the Company's ordinary business, or non-trade balances of a fixed or determinable amount that are not equity instruments or derivatives and are not traded in an active market.

These financial assets are recognised initially at the fair value of the consideration given plus any directly attributable transaction costs. Loans and receivables are subsequently measured at amortised cost, which is the initial fair value, less repayments of the principal, plus the accrued interest receivable calculated using the effective interest method.

Interest accrued is recognised in the income statement applying the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Assets are tested for impairment when there is objective evidence that they may be impaired. When the carrying amount of the asset exceeds the present value of the future cash flows it is expected to generate, discounted at the financial asset's original effective interest rate, an impairment loss is recognised for the difference. For variable income financial assets, the effective interest rate at the statement of financial position date is used, in accordance with the contractual terms.

However, trade receivables which have no contractual interest rate and are recoverable in the short term, and advances and loans to personnel, dividends receivable and capital calls on equity instruments, which are expected to be settled in the short term, are initially and subsequently measured at their nominal amount, when the effect of discounting is immaterial.

Impairment losses and reversals thereof are recognised as an expense or as income, respectively, in the income statement. The loss can only be reversed to the limit of the carrying amount of the asset had the impairment loss not been recognised.

Held-to-maturity investments: are debt securities with fixed or determinable payments and fixed maturity traded on an active market and that Company management has the positive intention and ability to hold to maturity.

- The measurement criteria applicable to these assets are the same as those applicable to loans and receivables.

The Company did not have any investments of this nature at 31 December 2017 or 2016.

- Financial assets at fair value through profit and loss:
 - Financial assets held for trading: are those acquired for resale in the short term or which are included in a portfolio for which there is recent evidence of resale activity, including derivative financial instruments that are not designated as hedging instruments. These assets are initially measured at the fair value of the consideration given. Transaction costs directly attributable to the acquisition are recognised as an expense. They are subsequently recognised at fair value through profit or loss.
 - Other financial assets at fair value through profit and loss include financial assets that are recognised at fair value through profit and loss on initial recognition and are managed and evaluated on a fair value basis. On initial and subsequent recognition, they are recognised at fair value through profit and loss.
- Available-for-sale financial assets: include financial assets specifically designated as available-for-sale or those that cannot be classified under any of the previous categories.

Practically all these assets are investments in the capital of companies that are not Group companies, jointly-controlled entities or associates.

These assets are initially measured at the fair value of the consideration given plus any directly attributable transaction costs, and are subsequently measured at fair value, where this can be reliably determined. Investments in equity instruments for which the fair value cannot be reliably determined are measured at cost less any accumulated impairment losses, where there is evidence of impairment.

Changes in fair value, net of tax, are recognised under valuation adjustments in equity until the investments are sold or become (irreversibly) impaired, when the accumulated gains or losses previously recognised in equity are taken to the income statement. Assets are considered to be irreversibly impaired if their quoted value falls by more than 40% over an 18-month period without recovery.

Were fair value to increase in subsequent years, the previously recognised impairment loss would be reversed as a credit in the income statement for that year.

Impairment losses on equity instruments that are measured at cost because their fair value cannot be reliably determined are recognised using similar criteria to those described in section d.3 of this Note.

2. Interest and dividends received from financial assets.

Interest and dividends from financial assets accrued after the acquisition date are recognised as income in the income statement.

To this end, on initial measurement of the financial assets, accrued explicit interest pending maturity at that time and dividends authorised by the competent office prior to the acquisition are recognised separately according to their maturity. Explicit interest is that obtained on applying the contractual interest rate of the financial instrument.

Furthermore, distributed dividends are not recognised as income when they are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investee

since acquisition have been distributed. Instead, they are recognised as a reduction in the carrying amount of the investment.

Interest income is recognised using the effective interest method and dividend income is recognised when the right to receive the payment is established.

3. Derecognition of financial assets.

The Company derecognises financial assets when they expire or when the contractual rights to the cash flows from the financial asset have been transferred and the risks and rewards of ownership have been substantially transferred. However, for transfers of financial assets in which the risks and rewards of ownership are substantially retained, the Company does not derecognise the financial assets but instead recognises a financial liability for the same amount as the consideration received.

If the Company has not substantially transferred or retained the risks and rewards of the financial asset, the asset is derecognised when control is not retained. If the Company retains control of the asset, it continues recognising it for the amount to which it is exposed through changes in the value of the asset transferred, i.e. for its continued involvement, recognising the associated liability.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded as profit.

d.2. Financial liabilities except derivatives.

1. Classification of financial liabilities.

The Company classifies financial liabilities into the following different categories based on the nature of the liability and the Company's intentions on initial recognition:

- Debts and payables: These are Company debts and payables arising from the purchase of goods and services in the course of Company business, or those which, though not considered derivative instruments, are not of a trading nature.

Financial liabilities for debts and payables are recognised at fair value, reflecting the amount received, net of transaction costs. In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method.

Should the liabilities be the underlying asset of a fair value hedge derivative, as an exception they are measured at fair value of the portion of the risk hedged.

However, trade payables which have no contractual interest rate and are payable in the short term, and capital called up by third parties, which is expected to be settled in the short term, are measured at their nominal amount, when the effect of discounting is immaterial.

- Financial liabilities at fair value through profit or loss:
 - Financial liabilities held for trading: those financial liabilities held for the purpose of repurchase in the short term or which form part of a portfolio of liabilities for which there is recent evidence of repurchase activity, including derivative financial instruments that are not designated as hedging instruments.

These liabilities are initially measured at the fair value of the consideration received less any directly attributable transaction costs. They are subsequently recognised at fair value through profit or loss.

- Other financial liabilities at fair value through profit or loss: include those financial liabilities which have been designated as such on initial recognition and which are managed and evaluated on a fair value basis.

These liabilities are initially measured at the fair value of the consideration received less any directly attributable transaction costs. They are subsequently recognised at fair value through profit or loss.

2. Calculation of fair value.

To calculate the fair value of the debt, the liabilities have been divided into those bearing interest at a fixed rate (hereinafter "fixed-rate debt") and those bearing interest at floating rates (hereinafter "floating-rate debt"). Fixed-rate debt is that on which fixed-interest coupons established at the beginning of the transaction are paid explicitly or implicitly over its term. Fixed-rate debt is measured by discounting future cash flows using the market interest rate curve associated with the payment currency. Floating-rate debt is that issued at a variable interest rate, i.e. each coupon is established at the beginning of each period on the basis of the reference interest rate. Floating-rate debt is measured at the nominal amount of each issue, except where the capitalisation and discount rates differ, in which case the difference is discounted and added to the nominal amount of the transaction.

3. Derecognition of financial liabilities.

The Company derecognises financial liabilities when the obligations that generated them have been extinguished.

d.3. Investments in equity instruments of Group companies, jointly-controlled entities and associates

Group companies are those over which the Company exercises direct or indirect control. Associates are those over which the Company has significant influence (considered as ownership of at least 20% of another company's voting stock). Jointly-controlled entities include companies run jointly by agreement with one or more partners.

Investments in Group companies, jointly-controlled entities and associates are initially measured at cost, reflecting the fair value of the consideration given plus any directly attributable transaction costs.

Subsequently these investments are measured at cost, less any accumulated impairment losses calculated as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the present value of future cash flows from the investment. Where cash flows cannot be determined, the equity of the investee is considered, adjusted for any unrealised gains existing at the measurement date (including goodwill, where applicable).

Impairment losses and, where applicable, their reversal, are recognised as an expense or income, respectively, in the income statement, up to the limit of the carrying amount of the investment at the reversal date had no impairment been recognised.

To test the investment in ENDESA, S.A. for impairment, the Company uses pre-tax cash flow projections for ENDESA S.A. and its subsidiaries based on the latest budgets available. These budgets include ENDESA S.A.'s management's best estimates of its income and expenses according to industry projections, past experience and future expectations.

These projections cover a 5-year period and future cash flows as appropriate, applying reasonable growth rates based on assumptions regarding average long-term growth and forecast inflation rates, and the specific geographic area.

The 2017 discount rates are between the ranges of 5.4% and 7.3% (between 5.9% and 8.1% in the 2016 financial year).

The growth rates (g rates) used in the 2017 and 2016 financial years used to extrapolate the cash flow projections were 1.7% and 1.4% respectively.

Values were allocated to the key assumptions based on:

- Trend of demand for electricity and gas: estimated growth was calculated on the basis of the growth forecast for Gross Domestic Product (GDP) and other assumptions with respect to trends in consumption of electricity and gas in these markets.
- Regulatory measures: a substantial part of ENDESA's business is regulated and subject to wide-ranging complex regulations, which may be amended by the introduction of new laws, by amendments to existing laws in such a way that forecasts contemplate proper application of current regulations, and any other laws now in process that may come into force during the projected period.
- Average rainfall: forecasts are drawn up on the basis of an average rainfall year, taking account of historical rainfall series. However, the actual rainfall of the preceding year was used for the first year of the projection, adjusting the average year accordingly.
- Installed capacity: installed capacity estimate takes account of existing facilities and plans to increase and close capacities. The investment plan is updated continuously on the basis of the trajectory of the business and changes to the development strategy undertaken by Management. Generating activity takes account of the investment required to maintain installed capacity in proper operating conditions, distribution activity considers investment in maintenance, improvement and enhancement of the network, and investment required to implement the remote metering plan, and marketing activity takes account of the investment required to bring about added-value products and services (PSVAs).
- Assumptions for energy sale and purchase prices and output of generation facilities are made based on complex specifically-developed internal forecast models that consider factors such as prices and availability of commodities (e.g. Brent oil, gas, coal), forecast demand, planned construction or the commissioning of new capacity in the various technologies. These models are constantly changing, factoring in changes in variables such as availability of the production base, start-up of operation of new plants. They provide signals on prices in the system and estimates of production costs, on which output forecasts for generation facilities are based.
- The hypothesis of sale and purchase prices for energy are based on complex internally developed projection models. The planned pool price is estimated on the basis of a number of decisive factors such as the costs and outputs of technologies and demand for electricity, among others.
- The prices at which electricity and gas are sold are determined on the basis of the prices established in sales contracts and future energy prices.
- Fuel costs are estimated taking into consideration existing supply contracts, and long-term forecasts are made for oil, gas or coal prices based on forward markets and estimates available from analysts.
- Fixed costs: these are projected considering estimated levels of activity for each company in terms of trends in personnel, as well as other operating and maintenance costs, forecast inflation and long-term maintenance contracts or other types of contracts.
- External sources are always used to compare macroeconomic assumptions, such as price trends, growth in gross domestic product (GDP), demand and inflation, among others.

Past experience indicates that the Company's projections are reliable and of high quality, enabling the Company to base its key assumptions on historical information. The deviations observed in 2017 from the expectations established in the projections used for impairment testing at 31 December 2016 were positive. As a result, both profits and cash flow generated in 2017 were similar to those forecast for the year in the impairment tests carried out for the preparation of the consolidated financial statements for 2016.

Based on these assumptions, the investment in ENDESA S.A. was tested for impairment. This test did not give rise to any need to recognise any impairment loss.

d.4. Derivatives and hedging transactions.

The derivatives held by the Company relate mainly to transactions arranged to hedge interest rate and foreign currency risk, the purpose of which is to eliminate or significantly reduce these risks in the underlying hedged transactions.

Derivatives are recognised at their fair value in the statement of financial position at the end of the reporting period. Derivatives are recognised as current or non-current financial investments where the value is positive and as current or non-current debts where the value is negative. Derivatives arranged with Group companies have been recognised as current or non-current investments in Group companies and associates where the value is positive and as current or non-current debts where the value is negative.

Any gains or losses arising from changes in fair value are recognised in the consolidated income statement as financial profit or loss, except where the derivative has been designated as a hedging instrument and the requirements for hedge accounting have been met; for example, the hedge must be highly effective. In this case, recognition depends on the type of hedge as follows:

- Fair value hedges: The portion of the hedged item for which the risk is hedged and the hedging instrument are measured at fair value through profit and loss as results from financial income or expense.
- Cash flow hedges: changes in the fair value of derivatives are recognised, for the effective portion of the hedge and net of tax, under valuation adjustments to hedging transactions in equity. The cumulative gain or loss is recognised in the income statement as the underlying hedged item affects profit or loss. The ineffective portion of the gain or loss on the hedges is recognised directly in the income statement as financial income or expense.
- Hedges of a net investment in a foreign operation: The currency risk components of hedges of net investments in foreign subsidiaries, jointly-controlled entities and associates are recognised as fair value hedges. Hedging instruments that are not, or cease to be, effective hedges are measured and recognised according to their nature.

Accounting hedges are designated and documented as such when they are first expected to prove highly effective.

A hedge is considered to be highly effective when the changes in fair value or in the cash flows of the underlying directly attributable to the hedged risk are offset by the changes in the fair value or cash flows of the hedging instrument with an effectiveness in the range of between 80% and 125%.

Derivatives embedded in other financial instruments are recognised separately when their characteristics and risks are not closely related to those of the host contract, provided that the overall contract is not recognised at fair value through profit and loss.

The fair value of the different derivative financial instruments is calculated as follows:

- For derivatives quoted on an organised market, their quoted value at year end.
- The Company measures derivatives not traded on organised markets by discounting the expected cash flows and using generally accepted option valuation models based on spot and futures market conditions at the end of each year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. Any accumulated gains or losses relating to the hedging instrument that have been recognised in equity continue to be recorded under equity until the foreseen transaction is completed. When the hedged transaction is not expected to be carried out, the net profit or loss accumulated in equity is recognised in the net results for the period.

d.5 Financial guarantee contracts

Financial guarantee contracts, which are the guarantee deposits extended to third parties by the Company, are initially recognised at fair value. Except where there is evidence to the contrary, fair value is the premium received plus the present value of any cash flows to be received.

Subsequently, financial guarantee contracts are measured as the difference between:

- The amount of the liability determined according to the accounting principles for provisions in Note 4f, and

- The amount of the initially recognised asset, less the portion taken to the income statement on an accruals basis.

e) Cash and cash equivalents.

Cash and cash equivalents include cash in hand and demand deposits in financial institutions. They also include other current, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

f) Provisions and contingencies.

Obligations existing at the statement of financial position date that arise as a result of past events which could have a negative impact on the Company's equity, and the amount and settlement date of which are uncertain are recognised as provisions in the statement of financial position at the present value of the most probable amount that it is considered that the Company will need to disburse to settle the liability.

Provisions are made based on the best information available at the reporting date on the most likely outcome of the event for which the provision is required and are re-estimated at the end of each reporting period.

Contingent liabilities are not recognised in the financial statements but disclosed in the corresponding Notes, when they are not considered to be remote.

The financial effect of provisions is recognised as a financial expense in the income statement. Current provisions, the financial effect of which is immaterial, are not discounted.

If it is no longer probable that an outflow of resources embodying economic resources will be required to settle an obligation, the provision is reversed.

Provisions for long-term employee benefits and for restructuring costs are the result of individual or collective agreements with the Company's employees, whereby the Company undertakes to supplement state benefits in the event of retirement, permanent disability, death, or termination or suspension of employment by agreement between the parties.

f.1. Provisions for pensions and similar obligations

ENDESA has various pension obligations with its employees, which vary depending on the company at which they work. These obligations, including both defined benefits and defined contributions, are basically arranged through pension plans or insurance policies, except as regards certain benefits in kind, mainly electricity supply obligations, which due to their nature have not been externalised and are covered by in-house provisions.

For defined benefit plans, the Company recognises the expenditure relating to these obligations on an accruals basis over the working life of the employees by performing actuarial studies at the reporting date, calculated using the projected unit credit method. The past service costs relating to changes in benefits are recognised immediately with a charge to income as the benefits vest where the rights are irrevocable.

Defined benefit plan obligations represent the present value of the accrued benefits after deducting the fair value of the qualifying plan assets and any unrecognised past service cost. The actuarial losses and gains arising on the measurement of plan liabilities and assets are recognised directly in other reserves: Other reserves" (see Note 10.3.5).

For each of the plans, any positive difference between the actuarial liability for past services and the plan assets is recognised under non-current provisions on the liability side of the statement of financial position. Any negative difference is recognised under non-current financial assets - loans to third parties in the statement of financial position, provided that this negative difference is recoverable by the Company, usually through a reduction in future contributions.

Contributions to defined contribution plans are recognised as an expense in the income statement as the employees provide their services.

Defined benefit plan assets and liabilities are recognised as current or non-current depending on when the associated benefits are realised or fall due.

The post-employment plans that have been fully insured and for which the Company has therefore transferred all the risk are considered to be defined contribution plans. Consequently, as in the case of defined contribution plans, no assets or liabilities are recognised.

f.2. Provisions for workforce restructuring costs.

The Company recognises termination or suspension benefits when there is an individual or group agreement with the employees or a genuine expectation that such an agreement will be reached that will enable the employees, unilaterally or by mutual agreement with the company, to cease working for ENDESA, S.A. Or temporarily suspend the employment contract, in exchange for a benefit or consideration. If a mutual agreement is required, a provision is only recorded in situations in which ENDESA has decided to give its consent to the termination of employment, and consent has been notified to the employee either individually or collectively to employee representatives. In all cases in which these provisions are recognised, the employees expect that these early retirements will proceed, and that there will be official notification by the Company to the employee or to the employee's representatives.

The Company has restructuring plans in progress as part of the corresponding workforce reduction plans approved by the government, or in agreements drawn up with employee representatives. The plans guarantee payment of an indemnity or maintenance of regular payments during the period of early retirement or suspension of the employment contract.

The Company recognises the full amount of the expenditure relating to these plans when the obligation is accrued, understood as the time at which the company is unable to prevent the disbursement, depending on the commitments undertaking with the employee or the employee's representatives. These amounts are determined, where appropriate, from actuarial studies to calculate the actuarial obligation at year-end. The actuarial gains and losses disclosed each year are recognised in the income statement for that year.

f.3. Short-term employee benefit

The Company recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

g) Transactions in foreign currency

Transactions in currencies other than the euro, the Company's functional currency, are translated to euros at the exchange rates prevailing at the transaction date. During the year, differences arising between the balances translated at the exchange rate at the transaction date and those translated at the exchange rate at the date of collection or payment are recorded as financial profit or loss in the income statement (see Note 9).

Balances receivable or payable at 31 December each year denominated in currencies other than the Euro are translated using the year-end exchange rate. Any resulting translation differences are recognised as financial profit or loss in the income statement.

h) Current/non-current classification.

In the accompanying statement of financial position, assets and liabilities maturing within 12 months are classified as current and those maturing within more than 12 months are classified as non-current.

i) Corporate income tax

The income tax expense or income for the year is calculated as the sum of the current tax of the Company resulting from applying the tax rate to the taxable income (tax loss) for the year, after taking into account any available tax deductions, plus the change in deferred tax assets and liabilities, and unused tax loss carryforwards and deductions.

The differences between the carrying amount of assets and liabilities and their tax base give rise to deferred tax assets or liabilities, which are measured at the tax rates that are expected to apply to the years when the assets are realised and the liabilities settled.

In accordance with the principle of prudence, deferred tax assets are recognised only to the extent that it is probable that the company will have future taxable profits available against which these assets can be applied. In any case, this condition will be considered to exist, when the applicable tax legislation provides for the possibility of future conversion of deferred tax assets in an enforceable claim against the tax authorities with respect to the assets subject to conversion.

Unless proved otherwise, it is not considered likely that the company will have future taxable profits in the following cases:

- Where it is expected that their future recovery will occur in a period in excess of 10 years from the closing date of the financial year, no matter what the nature of the deferred tax asset.
- In the case of claims arising from tax deductions and other tax benefits which are not used due to the amount of tax payable being insufficient, when having produced the activity or obtained the profit giving rise to the right to the tax credit or rebate, there is reasonable doubt about compliance with the requirements to make them effective.

It is also likely that the Company will have a sufficient future taxable profits to recover deferred tax assets, provided that a sufficient amount of taxable temporary differences also exist, related to the same taxation authority and the same taxable entity, the reversal of which is expected:

- In the same tax year in which it is intended to reverse the deductible temporary differences; or
- In those years in which a tax loss, arising from a deductible temporary difference, can be carried back or forward.

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Tax deductions arising from economic events occurring in the year reduce the income tax expense, unless there are doubts as to whether they can be realised, in which case they are not recognised until they have effectively been realised.

The deferred tax assets and liabilities recognised are reviewed at the end of each reporting period in order to ascertain whether they still exist, and the appropriate adjustments are made.

The Company also evaluates any deferred tax assets that were not previously recognised. Based on this evaluation, the Company recognises deferred tax assets not previously recognised provided it is probable that the Company will report taxable profits in the future enabling these assets to be capitalised.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and non-current liabilities, respectively in the statement of financial position, regardless of the estimated realization or settlement date.

The company forms part of the consolidated tax group headed by Enel S.p.A. (the Enel Group's Italian parent company), and represented in Spain by ENEL Iberia, S.L.U.

The accrued income tax expense for the companies forming the consolidated tax group is determined taking into account, in addition to the factors to consider in the case of individual taxation set out previously, the following:

- Temporary and permanent differences arising from the elimination of profits and losses on operations between companies in the tax group, derived from the process of determining consolidated taxable income.
- Tax deductions and rebates that correspond to each company forming the consolidated tax group; for these purposes, tax credits and rebates are allocated to the company that carried out the activity or obtained the profit necessary to obtain the right to the tax credit or rebate.

A reciprocal credit and debit arises between the companies that contribute tax losses to the consolidated tax group and the rest of the companies that offset those losses. Where a tax loss cannot be offset by the other consolidated Group companies, these tax credits for loss carryforwards are recognised as deferred tax assets under respective recognition criteria, considering the tax group as a taxable entity.

Tax deductions and rebates from income tax payable affect the calculation of the tax accruing to each company by the amount applicable in the consolidated tax group.

The amount of the debt (credit) relating to the entity representing the tax group in Spain, ENEL Iberia, S.L.U., is recognised with a credit (debit) to current debts (investments) with (in) Group companies and associates in the accompanying statement of financial position.

j) Income and expenses

Income and expense are recognised on an accruals basis.

Income from continuing operations is recognised when there is a gross inflow of economic benefits generated in the ordinary course of the Company's business during the year, provided that this inflow of economic benefits results in an increase in equity that is not related to contributions from equity holders and these benefits can be measured reliably. Income is measured at the fair value of the consideration received or receivable.

Income from services rendered is only recognised if the amount of income, stage of completion, costs incurred and costs pending can be measured reliably by reference to the stage of completion of the transaction at the reporting date.

Interest income and expenses are recognised by reference to the effective interest rate applicable to the outstanding principal over the related repayment period.

Dividends from investments in equity instruments are recognised when the Company is entitled to receive them. In accordance with the Institute of Accountants and Auditors (hereinafter, "ICAC") resolution published in issue 79/2009, consultation 2 of the BOICAC (official gazette of the ICAC) on the classification in the individual financial statements of the income and expense of a holding company, the corporate purpose of which is the custody of securities, dividend income is recognised under revenues in the income statement, while an account is included under the operating margin for impairment losses on equity instruments associated with its activity.

k) Environmental assets.

Environmental expenses are those incurred by the Company to minimise the environmental impact of its activity.

The environmental expenses of these activities and any incurred as a result of events outside the Company's normal business that are not expected to arise frequently (including fines, sanctions and compensation payable to third parties for environmental damage), are classified as operating expenses under other operating expenses - external services in the period in which they are incurred.

Non-current assets acquired by the Company to minimise the environmental impact of its activity and protect and improve the environment are recognised – depending on their nature – as property, plant and equipment or intangible assets, at cost of acquisition or production, and are depreciated or amortised on a straight-line basis over their economic life.

l) Related-party transactions.

All the Company's transactions with related parties are at market prices. Transfer prices are adequately supported, and consequently the Company's directors consider that no significant risks exist in this respect from which significant liabilities could arise in the future.

m) Share-based remuneration schemes.

Where ENDESA, S.A. employees participate in a remuneration scheme tied to ENDESA, S.A. share prices, and this company assumes the cost of the scheme, ENDESA, S.A. recognises the fair value of ENDESA's obligation to employees as an expense under the heading "Personnel expenses" in the income statement (see Note 18.3.5).

n) Statement of cash flows.

The statement of cash flows reflects the changes in cash occurring during the year, calculated using the indirect method. The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are investments with a term of less than three months that are highly liquid and subject to an insignificant risk of changes in value.
- Operating activities: The principal income-producing activities of the Company, in addition to other activities that are not investing or financing activities.
- Investing activities: The acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: Activities that result in changes in the amount and composition of equity and financial liabilities.

5. Intangible assets

At 31 December 2017 and 2016 the composition and movements of this item of the accompanying statement of financial position were as follows:

Millions of Euros				
	Balance at 31 December 2016	Investment and provisions	Derecognitions and transfers	Balance at 31 December 2017
Cost:				
Patents, licences, trademarks and similar	32	7	-	39
Software	281	29	-	310
Total	313	36	-	349
Accumulated amortisation/depreciation:				
Patents, licences, trademarks and similar	(27)	(6)	-	(33)
Software	(169)	(22)	-	(191)
Total	(196)	(28)	-	(224)
NET TOTAL	117	8	-	125

Millions of Euros

	Balance at 31 December 2015	Investment and provisions	Derecognitions and transfers	Balance at 31 December 2016
Cost:				
Patents, licences, trademarks and similar	34	-	(2)	32
Software	280	31	(30)	281
Total	314	31	(32)	313
Accumulated amortisation/depreciation:				
Patents, licences, trademarks and similar	(23)	(6)	2	(27)
Software	(176)	(23)	30	(169)
Total	(199)	(29)	32	(196)
NET TOTAL	115	2	-	117

Euros 24 million of the investments in software made in 2017 corresponded to acquisitions from ENDESA Medios y Sistemas, S.L.U. and Euros 2 million from ENEL Italia, S.r.L. (Euros 24 million from ENEL Iberia, S.L.U. in 2016) (see Note 18.1).

Fully amortised intangible assets still in use had a cost of Euros 30 million at 31 December 2017.

Derecognitions of software applications totalled Euros 30 million in 2016 and related to fully amortised assets no longer in use.

At 31 December 2017 and 2016, no intangible asset purchase commitments for material amounts existed.

6. Property, plant and equipment.

At 31 December 2017 and 2016 the composition and movements of this item of the accompanying statement of financial position were as follows:

Millions of Euros

	Balance at 31 December 2016	Investment and provisions	Derecognitions and transfers	Balance at 31 December 2017
Cost:				
Facilities and other property, plant and equipment	5	-	-	5
Total	5	-	-	5
Accumulated amortisation/depreciation:				
Facilities and other property, plant and equipment	(3)	(1)	-	(4)
Total	(3)	(1)	-	(4)
NET TOTAL	2	(1)	-	1

Millions of Euros

	Balance at 31 December 2015	Investment and provisions	Derecognitions and transfers	Balance at 31 December 2016
Cost:				
Facilities and other property, plant and equipment	9	1	(5)	5
Total	9	1	(5)	5
Accumulated amortisation/depreciation:				
Facilities and other property, plant and equipment	(6)	(1)	4	(3)
Total	(6)	(1)	4	(3)
NET TOTAL	3	-	(1)	2

There was no fully depreciated property, plant and equipment still in use at the Company on 31 December 2017.

At 31 December 2017 and 2016, the Company had no commitments to purchase property, plant and equipment.

The Company has taken out corporate insurance policies that cover the risk of damage to its property, plant and equipment with limits and coverage appropriate to the type of risk.

Possible claims against the Company due to the nature of its activity are also covered.

7. Leases and other similar agreements.

7.1. Operating leases

ENDESA, S.A. leases the building of its headquarters from Group company ENDESA Medios y Sistemas, S.L.U. The lease expires in the year 2023. Lease payments made in this regard in 2017, amounted to Euros 9 million, the same figure as in 2016. (see Notes 16.4 and 18.1).

In addition, ENDESA, S.A. leases certain buildings where offices are located, whose maturity ranges from 1 year to 11 years. In 2017 and 2016, these lease payments amounted to Euros 1 million and Euros 2 million, respectively (see Note 16.4).

At 31 December 2017 and 2016, the minimum lease payments payable by the Company under operating leases are as follows:

Millions of Euros			
	Nominal Value		
	31 December 2017	31 December 2016	
Within one year	9	9	9
Between one year and five years	37	37	37
More than five years	6	23	23
Total	52	69	69

8. Current and non-current financial assets.

The details and movements of non-current financial investments in Group companies and associates and non-current financial assets in the accompanying statement of financial positions at 31 December 2017 and 2016 are as follows:

Millions of Euros

	Note	Balance at 31 December 2016	Additions and provisions	Disposals	Transfers and other	Balance at 31 December 2017
Non-current investments in Group companies and associates	18.2	14,793	10	-	-	14,803
Equity instruments	8.1.1	14,793	-	-	-	14,793
Interests in Group companies and associates		14,793	-	-	-	14,793
Impairment losses		-	-	-	-	-
Loans to companies	8.1.2	-	-	-	-	-
Loans to companies		-	-	-	54	54
Impairment losses	8.1.3	-	-	-	(54)	(54)
Derivatives	14	-	10	-	-	10
Non-current financial investments		54	3	(17)	-	40
Equity instruments	8.2.1	5	-	-	-	5
Non-current financial investments		5	-	-	-	5
Impairment losses		-	-	-	-	-
Loans to third parties	8.2.2	5	-	-	-	5
Loans to third parties		7	-	-	-	7
Impairment losses		(2)	-	-	-	(2)
Derivatives	14	7	-	(7)	-	-
Other financial assets	8.2.3	37	3	(10)	-	30
NON-CURRENT FINANCIAL ASSETS		14,847	13	(17)	-	14,843

Millions of Euros

	Note	Balance at 31 December 2015	Additions and provisions	Disposals	Transfers and other	Balance at 31 December 2016
Non-current investments in Group companies and associates	18.2	14,813	-	(20)	-	14,793
Equity instruments	8.1.1	14,813	-	(20)	-	14,793
Interests in Group companies and associates		14,813	-	(20)	-	14,793
Impairment losses		-	-	-	-	-
Loans to companies	8.1.2	-	-	-	-	-
Loans to companies		54	-	-	(54)	-
Impairment losses	8.1.3	(54)	-	-	54	-
Non-current financial investments		49	21	(8)	(8)	54
Equity instruments	8.2.1	2	3	-	-	5
Non-current financial investments		2	3	-	-	5
Impairment losses		-	-	-	-	-
Loans to third parties	8.2.2	5	8	-	(8)	5
Loans to third parties		7	8	-	(8)	7
Impairment losses		(2)	-	-	-	(2)
Derivatives	14	-	7	-	-	7
Other financial assets	8.2.3	42	3	(8)	-	37
NON-CURRENT FINANCIAL ASSETS		14,862	21	(28)	(8)	14,847

The details and movements of current financial investments in Group companies and associates and current financial assets in the accompanying statement of financial positions at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Note	31 December 2017	31 December 2016
Current investments in Group companies and associates	18.2	95	143
Loans and advances to companies	8.1.2	62	142
Loans to Group companies and associates		62	196
Impairment losses		-	(54)
Derivatives	14	33	1
Current Financial Investments		15	32
Loans to third parties		11	10
Loans to third parties		11	10
Derivatives	14	4	21
Other financial assets		-	1
TOTAL CURRENT FINANCIAL ASSETS		110	175

8.1. Current investments in Group companies and associates

8.1.1. Equity instruments

Details of the Company's investments in equity instruments of Group companies and associates at 31 December 2017 and 2016, as well as the most significant information regarding each investment at those dates, are as follows:

Group companies and associates: 2017		Millions of Euros													
Company ⁽¹⁾						Profit/(loss) for the year						Carrying amount			Dividends received
Registered office	Activity	% direct ownership	Share capital	Reserves	Interim dividend	Profit/(loss) from operations	Net gain/(loss)	Total equity	Grants, donations and bequests received	Valuation adjustments	Total equity	Cost	Impairment in the year	Accumulated impairment	(Notes 16.1 and 18.1)
Group companies:															
ENDESA Energía, S.A.U. – Madrid ⁽²⁾	Marketing of energy products	100%	15	78	-	(170)	(158)	(65)	-	(18)	(83)	34	-	-	-
ENDESA Generación, S.A.U. – Seville ⁽²⁾	Electricity production and retailing	100%	1,940	4,050	(888)	658	421	5,523	49	(336)	5,236	3,891	-	-	888
ENDESA Red, S.A.U. – Madrid ^{(2) (3)}	Distribution activities	100%	720	1,319	(443)	1,453	1,048	2,644	4,704	(321)	7,027	1,440	-	-	443
International ENDESA, B.V. – Holland	International financial transaction company	100%	15	4	-	-	1	20	-	-	20	18	-	-	-
ENDESA Medios y Sistemas, S.L.U. – Madrid	Rendering of services	100%	90	74	-	1	(6)	158	-	-	158	167	-	-	-
ENDESA Financiación Filiales, S.A.U. – Madrid	ENDESA, S.A. subsidiary financing	100%	4,621	4,621	(123)	223	168	9,287	-	-	9,287	9,242	-	-	172
Rest of Group		-	-	-	-	-	-	-	-	-	-	1	-	-	-
TOTAL												14,793	-	-	1,503

(1) Unaudited figures.

(2) Figures related to information of the consolidated subgroup.

(3) In 2017, the Company changed its registered address from Avenida Vilanova (Barcelona) to Calle Ribera del Loira (Madrid).

Group companies and associates: 2016		Millions of Euros													
Company						Profit/(loss) for the year						Carrying amount			Dividends received
Registered office	Activity	% direct ownership	Share capital	Reserves	Interim dividend	Profit/(loss) from operations	Net gain/(loss)	Total equity	Grants, donations and bequests received	Valuation adjustments	Total equity	Cost	Impairment in the year	Accumulated impairment	(Notes 16.1 and 18.1)
Group companies:															
ENDESA Energía, S.A.U. – Madrid ⁽²⁾	Marketing of energy products	100%	15	34	(670)	902	652	31	-	(27)	4	34	-	-	670
ENDESA Generación, S.A.U. – Seville ⁽²⁾	Electricity production and retailing	100%	1,940	2,231	-	153	83	4,254	42	(354)	3,942	3,891	-	-	-
ENDESA Red, S.A.U. – Madrid ^{(2) (3)}	Distribution activities	100%	720	1,138	(647)	1,131	770	1,981	4,689	(366)	6,304	1,440	-	-	725
International ENDESA, B.V. – Holland ⁽¹⁾	International financial transaction company	100%	15	5	-	-	-	20	-	-	20	18	-	-	-
ENDESA Medios y Sistemas, S.L.U. – Madrid ⁽¹⁾	Rendering of services	100%	90	73	-	(7)	(2)	161	-	-	161	167	-	-	7
ENDESA Financiación Filiales, S.A.U. – Madrid ⁽¹⁾	ENDESA, S.A. subsidiary financing	100%	4,621	4,621	(139)	248	187	9,290	-	-	9,290	9,242	-	-	192
Rest of Group		-	-	-	-	-	-	-	-	-	-	1	-	-	-
TOTAL												14,793	-	-	1,594

(1) Audited figures.

(2) Figures related to information of the consolidated subgroup. Unaudited figures.

These companies do not have publicly listed share prices.

At 31 December 2017 and 2016, ENDESA also held 100% of ENDESA Capital, S.A.U. and ENDESA Generación II, S.A.U.

Most significant changes in 2017 and 2016.

2017

In 2017, no significant transactions were registered.

2016

ENEL Insurance, N.V.

On 24 May 2016, ENDESA, S.A. sold its entire stake in ENEL Insurance N.V. (representing 50% of its share capital) to ENEL Investment Holding B.V., the carrying amount of which was Euros 20 million, for a total price of Euros 114 million. This transaction generated a capital gain of Euros 94 million, recognised under the heading "Impairment losses and investment income in Group companies and associates" (see Notes 16.2 and 18.1).

8.1.2. Current and non-current loans and advances to Group companies and associates

At 31 December 2016, the loan of Euros 54 million granted to Elcogas, S.A. and that was fully written off was recognised under "Current loans and advances to Group companies and associates".

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 at the Ministry of Industry, Energy and Tourism, authorising Elcogas, S.A. to close the 320 MW integrated combined-cycle gasification thermoelectric power plant in the municipality of Puertollano (Ciudad Real). Elcogas, S.A. must also partially dismantle the power plant within a period of four years from the date of this Resolution. On 30 October 2015, the Ministry of Energy, Tourism and Digital Agenda passed a resolution granting a three months extraordinary, and one-time, extension for the closure until 31 January 2016, for which the company presented a feasibility plan.

After several appeals to the Government, on 21 December 2015, the Board of Directors of Elcogas, S.A. approved the feasibility plan for submission to the Ministry of Energy, Tourism and Digital Agenda which included the minimum conditions needed to make the company viable. On 18 January 2016, Ministry of Energy, Tourism and Digital Agenda rejected the proposed plan, and as a result, in the absence of a feasibility plan, on 21 January 2016, Elcogas, S.A.'s board agreed to proceed with the decommissioning and closure of the plant within the maximum period set by the Ministry.

At 31 December 2017, the loan granted to Elcogas, S.A. is recognised under "Non-current loans and advances to Group companies and associates" with the due date being 8 May 2019.

Furthermore, at 31 December 2017, current loans and advances to Group companies and associates includes the amounts receivable from ENEL Iberia, S.L.U. corresponding to Income Tax for the sum of Euros 58 million (Euros 141 million at 31 December 2016). The receivable for income tax in 2017 of Euros 18 million (Euros 102 million at 31 December 2016) is an estimate and therefore interest-free, as it will be settled in 2018 when the income tax return is filed (See Notes 15.9 and 18.2).

Furthermore, at 31 December 2016, "Current loans and advances to Group companies and associates" included the amount receivable from ENEL Iberia, S.L.U. for Value Added Tax (VAT) for the sum of Euros 1 million (See Notes 15.9 and 18.2).

At 31 December 2017, the amount corresponding to Value Added Tax (VAT), Euros 5 million, is payable and is recognised under current Debts to Group companies and associates (see Notes 12.2, 15.9 and 18.2).

8.1.3. Impairment.

During 2017 and 2016, impairment losses on current loans and advances to Group companies and associates and any reversals thereof are as follows:

Millions of Euros	2017	2016
Balance at 1 January	-	54
Transfers to current	54	-
Transfers to current	-	(54)
Balance at 31 December	54	-

In 2017, the entire provision associated with the loan of Euros 54 million granted to Elcogas, S.A. was transferred to the item "Non-current loans and advances to Group companies and associates" (see Note 8.1.2).

8.2. Current and non-current financial investments

8.2.1. Equity instruments

Investments in equity instruments held at 31 December 2017 and 2016, totalled Euros 5 million, respectively.

Productora Eléctrica Urgelense, S.A.

On 8 November 2016, ENDESA, S.A. acquired Hidroeléctrica de Catalunya, S.L.U.'s 8,4304% equity stake in Productora Eléctrica Urgelense, S.A. The price of this transaction was Euros 3 million.

8.2.2. Non-current loans to third parties.

At 31 December 2017 and 2016, Euros 5 million was also recognised under this heading in relation to non-current loans to staff.

At 31 December 2017 and 2016, impairment losses on non-current loans to third parties stood at Euros 2 million, with no significant movements having taken place in either year.

8.2.3. Other non-current financial assets

At 31 December 2017 and 2016, included under this heading were Euros 30 million and Euros 37 million, respectively, for the deposit made to guarantee payment for future services from the employees who are members of the ENDESA, S.A. defined benefit pension Plan (See Note 11.1).

8.3. Classification of current and non-current financial assets by class and category.

The balances of non-current and current financial assets at 31 December 2017 and 2016 are as follows:

Millions of Euros

31 December 2017

	Note	Financial assets held for trading	Other assets at fair value through profit and loss	Available-for-sale Financial Assets	Loans and receivables	Hedging derivatives	Total
Non-current investments in Group companies and associates		10	-	-	-	-	10
Derivatives	14	10	-	-	-	-	10
Non-current financial investments		-	-	5	35	-	40
Equity instruments		-	-	5	-	-	5
Loans to third parties		-	-	-	5	-	5
Other financial assets		-	-	-	30	-	30
Non-current financial assets		10	-	5	35	-	50
Current investments in Group companies and associates		33	-	-	62	-	95
Loans to companies		-	-	-	62	-	62
Derivatives	14	33	-	-	-	-	33
Current Financial Investments		4	-	-	11	-	15
Loans to third parties		-	-	-	11	-	11
Derivatives	14	4	-	-	-	-	4
Trade and Other Receivables		-	-	-	159	-	159
Cash and cash equivalents		-	-	-	30	-	30
Total current financial assets		37	-	-	262	-	299
TOTAL		47	-	5	297	-	349

Millions of Euros

31 December 2016

	Note	Financial assets held for trading	Other assets at fair value through profit and loss	Available-for-sale Financial Assets	Loans and receivables	Hedging derivatives	Total
Non-current financial investments		7	-	5	42	-	54
Equity instruments		-	-	5	-	-	5
Loans to third parties		-	-	-	5	-	5
Derivatives	14	7	-	-	-	-	7
Other financial assets		-	-	-	37	-	37
Non-current financial assets		7	-	5	42	-	54
Current investments in Group companies and associates		1	-	-	142	-	143
Loans to companies		-	-	-	142	-	142
Derivatives	14	1	-	-	-	-	1
Current Financial Investments		21	-	-	10	1	32
Loans to third parties		-	-	-	10	-	10
Derivatives	14	21	-	-	-	-	21
Other financial assets		-	-	-	-	1	1
Trade and Other Receivables		-	-	-	70	-	70
Cash and cash equivalents		-	-	-	21	-	21
Total current financial assets		22	-	-	243	1	266
TOTAL		29	-	5	285	1	320

Financial assets held for trading, available-for-sale financial assets and hedging derivatives are measured at fair value, except investments in equity instruments whose fair value cannot be reliably determined. These investments are measured at cost less any accumulated impairment losses (see Note 4d). The fair value of the rest of the financial assets does not differ substantially from their carrying amount.

Financial assets held for trading are financial derivatives not designated for accounting purposes as hedging instruments.

The fair value of financial assets is measured taking into account observable market variables, specifically by estimating discounted future cash flows using zero-coupon yield curves for each currency on the last working day of each closure, translated to euros at the exchange rate prevailing on the last working day of each closure. All these measurements are made using internal tools.

At 31 December 2017 and 2016, the fair value of the Company's non-current financial assets under "Loans and receivables", did not differ substantially from the carrying amount.

8.4. Classification by maturity

The breakdown by maturity of non-current financial assets, excluding equity instruments, at 31 December 2017 and 2016, was as follows:

Millions of Euros

31 December 2017	2019	2020	2021	2022	Subsequent years	Total
Non-current investments in Group companies and associates	9	1	-	-	-	10
Derivatives	9	1	-	-	-	10
Non-current financial investments	1	2	1	-	31	35
Loans to third parties	1	2	1	-	1	5
Other financial assets	-	-	-	-	30	30
NON-CURRENT FINANCIAL ASSETS	10	3	1	-	31	45

Millions of Euros

31 December 2016	2018	2019	2020	2021	Subsequent years	Total
Non-current financial investments	8	2	1	1	37	49
Loans to third parties	2	1	1	-	1	5
Derivatives	6	1	-	-	-	7
Other financial assets	-	-	-	1	36	37
NON-CURRENT FINANCIAL ASSETS	8	2	1	1	37	49

8.5. Items recognised in the income statement and in equity.

In 2017 and 2016, the applications made in the statement of profit or loss and in net equity linked to financial assets grouped by the different categories are as follows:

Millions of Euros

	2017		2016	
	Net gain/(loss)	Equity	Net gain/(loss)	Equity
Loans and receivables	24	-	18	-
Assets at fair value through profit or loss	109	-	29	-
Held for trading	109	-	29	-
TOTAL	133	-	47	-

8.6. Financial assets at fair value through profit and loss

In 2017 and 2016, the changes in the fair value of non-current and current financial assets at fair value through profit and loss were as follows:

Millions of Euros

	Fair value at 31 December 2016	Variation in fair value of derivatives	Settlements of derivatives	Other movements	Fair value at 31 December 2017
Financial assets at fair value through profit and loss	29	109	(57)	(34)	47
Non-current	7	12	-	(9)	10
Current	22	97	(57)	(25)	37
TOTAL	29	109	(57)	(34)	47

Millions of Euros

	Fair value at 31 December 2015	Variation in fair value of derivatives	Settlements of derivatives	Other movements	Fair value at 31 December 2016
Financial assets at fair value through profit and loss	12	51	(31)	(3)	29
Non-current	-	7	-	-	7
Current	12	44	(31)	(3)	22
TOTAL	12	51	(31)	(3)	29

8.7. Financial investment commitments

At 31 December 2017 and 2016, the Company had no agreements that included commitments to make financial investments of a significant amount.

9. Foreign currency

Details of the most significant foreign currency balances at 31 December 2017 and 2016 are as follows:

Millions of Euros

	Note	31 December 2017		31 December 2016			TOTAL
		US dollar (USD)	TOTAL	US dollar (USD)	Sterling Pound (GBP)	Chilean peso (CLP)	
CURRENT ASSETS		4	4	21	1	-	22
Trade and Other Receivables		-	-	-	-	-	-
Receivable from Group Companies and Associates		-	-	-	-	-	-
Current investments in Group companies and associates	8.1.2 and 18.2	4	4	-	-	-	-
Loans to companies		4	4	-	-	-	-
Current Financial Investments		-	-	20	-	-	20
Derivatives		-	-	20	-	-	20
Cash and cash equivalents		-	-	1	1	-	2
TOTAL ASSETS		4	4	21	1	-	22

Millions of Euros

	Note	31 December 2017		31 December 2016			TOTAL
		US dollar (USD)	TOTAL	US dollar (USD)	Sterling Pound (GBP)	Chilean peso (CLP)	
NON-CURRENT LIABILITIES		-	-	1	-	-	1
Non-current Debts to Group companies and associates	12.2 and 18.2	-	-	1	-	-	1
CURRENT LIABILITIES		-	-	20	-	-	20
Derivatives		-	-	20	-	-	20
TOTAL LIABILITIES		-	-	21	-	-	21

At 31 December 2017, foreign currency loans to Group companies and associates correspond to interest pending payment from ENDESA Financiación Filiales, S.A.U. (see Note 12.2).

At 31 December 2016, non-current Debts to Group companies and associates in foreign currency corresponded to the loans with ENDESA Financiación Filiales, S.A.U. denominated in US dollars (USD) (see Note 12.2).

During 2017 and 2016, the transactions denominated in foreign currency of significant amounts are as follows:

Millions of Euros						
	2017		2016			
	US dollar (USD)	TOTAL	US dollar (USD)	Sterling Pound (GBP)	Chilean peso (CLP)	TOTAL
Revenue	-	-	-	-	1	1
PROFIT FROM OPERATIONS	-	-	-	-	1	1
Finance Income	4	4	-	-	-	-
NET FINANCIAL PROFIT/(LOSS)	4	4	-	-	-	-
PROFIT BEFORE TAX	4	4	-	-	1	1

The foreign exchange differences arising on transactions settled in 2017 and 2016 related mainly to valuations of liquid asset accounts denominated in foreign currency.

10. Equity.

At 31 December 2017 and 2016, the breakdown of equity and movement during the year are shown in the statement of changes in equity.

10.1. Share capital

At 31 December 2017, ENDESA, S.A. had share capital of Euros 1,270,502,540.40, represented by 1,058,752,117 bearer shares with a par value of Euros 1.20 per share, fully subscribed and paid up and all admitted to trading on the Spanish Stock Exchanges. This figure was unchanged in 2017 and 2016. All the shares have the same voting and profit-sharing rights.

At 31 December 2017 and 2016, the ENEL Group held 70,101% of the share capital in ENDESA, S.A., through ENEL Iberia, S.L.U. At that date no other shareholder held more than 10% of the share capital of ENDESA, S.A.

10.2. Share premium

The share premium arises from the Company's corporate restructuring. Article 303 of the Consolidated Text of the Corporate Enterprises Act expressly permits the use of the share premium to increase capital and does not establish any specific restrictions as to its use.

Nonetheless, at 31 December 2017, Euros 49 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 53 million at 31 December 2016).

10.3. Reserves

Details of the Company's reserves at 31 December 2017 and 2016 are as follows:

Million Euros			
	Note	31 December 2017	31 December 2016
Legal reserve	10.3.1	254	254
Revaluation reserve	10.3.2	404	404
Redeemed capital reserve	10.3.3	102	102
Reserve for redenomination of capital to Euros	10.3.4	2	2
Reserve for actuarial gains and losses and other adjustments	10.3.5	(20)	(23)
Other reserves		703	703
Merger reserve	10.3.6	667	667
Other unrestricted reserves	10.3.7	36	36
Voluntary and other reserves		36	36
TOTAL		1,445	1,442

10.3.1. Legal reserve.

In accordance with Article 274 of the Consolidated Text of Spain's Corporate Enterprises Act, an amount equal to ten percent of the profit for the year must be earmarked for the legal reserve until such reserve represents at least twenty per cent of the capital. The legal reserve can be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase. Except for the aforementioned purpose, the legal reserve may not be used to offset losses unless it exceeds twenty per cent of the capital and no other sufficient reserves are available for such purpose.

At 31 December 2017 and 2016, the Company held the minimum amount stipulated in law for this reserve.

10.3.2. Revaluation reserve.

The revaluation reserve is a result of the revaluation of assets made pursuant to Royal Decree-Law 7/1996, of 7 June 1996.

On 1 January 2000, the revalued assets were contributed to the corresponding companies following the corporate restructuring carried out by ENDESA, S.A.

This balance can be used, tax-free, to offset the accounting loss for the year or accounting losses accumulated from prior years or that could arise in the future, and to increase share capital or unrestricted reserves. It can also be transferred to unrestricted reserves provided that the monetary gain has been realised. The gain will be deemed to have been realised when the related revalued assets have been depreciated, transferred or derecognised.

This balance would be taxed if used for any purpose other than that foreseen in Royal Decree Law 7/1996 of 7 June 1996.

Nonetheless, at 31 December 2017, Euros 314 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 327 million at 31 December 2016).

10.3.3. Redeemed capital reserve.

The redeemed capital reserve has been appropriated in compliance with Article 335 of Spain's Corporate Enterprises Act, which requires companies to post to this reserve an amount equal to the par value of the redeemed shares or of the reduction in their par value, when the reduction is charged to unrestricted profits or reserves by redeeming shares acquired free of charge by the Company. The drawdown on this reserve shall be subject to the same requirements as set forth for reducing share capital.

10.3.4. Reserve for redenomination of capital to Euros.

This reserve is not distributable.

10.3.5. Reserve for actuarial gains and losses and other adjustments.

This reserve derives from actuarial gains and losses recognised in equity (see Note 11.1).

10.3.6. Merger reserve.

This reserve stems from the restructuring of the Company, and its balance, at 31 December 2017 and 2016, amounts to Euros 667 million, of which Euros 104 million and Euros 110 million, respectively, are undistributable because they are subject to certain tax benefits.

10.3.7. Other unrestricted reserves.

Voluntary reserves are freely distributable.

10.4. Dividends

2017

At its meeting held on 21 November 2017, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2017 profit of Euro 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2018 (see Note 3).

2016

At its meeting held on 22 November 2016, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2016 profit of Euro 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2017 (see Note 3).

Approval was given at ENDESA General Shareholders' Meeting of 26 April 2017 to pay shareholders a total dividend charged against 2016 profit of a gross €1,333 per share (€1,411 million). The difference between the total dividend approved by the shareholders and the interim dividend already paid and described above, for a total payout of Euros 670 million (€0,633 gross per share), was paid on 3 July 2017 (see Note 3).

11. Provisions and contingencies

Details of current and non-current provisions in the accompanying statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Note	31 December 2017	31 December 2016
Non-current provisions			
Non-current employee benefits:		73	82
Post-employment benefits	11.1	47	48
Other employee benefits		26	34
Provisions for workforce restructuring costs		190	241
Workforce Reduction Plans	11.2.1	7	6
Contract suspensions	11.2.2	183	235
Other provisions	11.3	60	47
TOTAL		323	370
Current provisions			
Provisions for workforce restructuring costs		45	47
Workforce Reduction Plans	11.2.1	15	25
Contract suspensions	11.2.2	30	22
Other provisions	11.3	9	8
TOTAL		54	55

11.1. Non-current employee benefits

All ENDESA, S.A. employees are members of the Pension Plan, unless they expressly opt out.

With the signing of the first Framework Agreement on 25 October 2000, a defined contribution pension scheme was established for retirement, and a defined benefit scheme for death and incapacity.

A scheme involving combined contributions by the company and the employee was established, with a maximum 6% of the pensionable salary being borne by the Company and 3% of the same salary by the employee.

There are also employees covered by origin agreements predating the Framework Agreement:

- Defined contribution for retirement, and defined benefit for death and incapacity and with benefit and contribution systems differing from those described above, the situation varying depending on the origin.
- Defined benefit for retirement, death and incapacity, relating to two major collectives:
 - Electricity employees of the former ENDESA, S.A. This is now closed, for which the predetermined nature of the retirement benefit and the fact that it is fully underwritten means that there is no risk.
 - Fecsa/Enher/HidroEmpordá employees. A collective that is closed for which the benefit is linked to the consumer price index (CPI) and not underwritten, with the exception of benefits arising up to 31 December 2011, the date on which an insurance policy was taken out to cover these benefits, thereby eliminating any future obligation as regards this collective.

For this collective, there is an internal fund as a provision together with the assets of the Plan covering the obligation in its entirety.

There are also certain social benefit obligations to employees during their retirement, relating mainly to supply of electricity. These obligations have not been externalised and are covered by the related in-house provisions.

The amounts recognised in the accompanying statement of financial position at 31 December 2017 for post-employment benefits includes Euros 47 million recognised in non-current provisions (Euros 48 million at 31 December 2016).

Details of the present value of the Company's main obligations regarding post-employment plans and other non-current benefits and associated plan assets at 31 December 2017 and 2016 are as follows:

Millions of Euros

	31 December 2017	31 December 2016
Present value of commitments	111	116
Assets	33	40
Former employees	57	54
Early retired	21	22
Fair value of defined benefit plan assets	(64)	(68)
NET TOTAL	47	48

Movement in the liabilities assumed in relation to defined benefit scheme obligations at 31 December 2017 and 2016 was as follows:

Millions of Euros

	Note	2017	2016
Opening actuarial liability		116	94
Amounts charged to profit for the year		3	4
Personnel Expenses		1	1
Finance Expenses	16.6	2	3
Actuarial gains and losses		(2)	21
Applications		(7)	(5)
Payments		(7)	(5)
Others		1	2
Closing actuarial liability		111	116

Changes in the market value of defined benefit plan assets at 31 December 2017 and 2016 were as follows:

Millions of Euros

	Note	2017	2016
Opening market value		68	63
Estimated benefit	16.6	1	2
Payments		(7)	(2)
Actuarial gains and losses		2	5
Closing market value		64	68
Opening liabilities/(assets) balance		48	31
Final liabilities/(assets) balance		47	48

Plan Assets

The main characteristics of defined benefit plan assets as a percentage of total assets, at 31 December 2017 and 2016, was as follows:

	Percentage (%)	
	31 December 2017	31 December 2016
Shares	33	30
Fixed-income assets	60	64
Other (cash)	7	6
TOTAL	100	100

Actuarial assumptions

The following were the most significant actuarial assumptions considered in the calculations at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Mortality tables	PERM / F2000	PERM / F2000
Technical interest rate (pensions)	1.65%	1.74%
Expected return on plan assets	1.65%	1.74%
Technical interest rate (energy)	1.67%	1.75%
Technical interest rate (healthcare costs)	1.63%	1.72%
CPI	2.00%	2.00%
Increase in healthcare costs	3.20%	3.20%
Retirement age	65	65

(1) Annual pension and salary increases.

The interest rate applied to discount the commitments in Spain is obtained from a curve constructed using the yields on corporate bond issues by companies with a "AA" credit rating and based on the estimated term over which the obligations arising from each commitment will be settled.

The projected unit credit method is used, where each year of service generates a unit of rights to the benefits, with each unit determined separately.

The Company has the above obligations covered by the amounts shown in the statements of financial position at 31 December 2017 and 2016.

Contributions by the Company to defined contribution plans amounted to Euros 12 million in 2017 (Euros 11 million in 2016) and are recognised under personnel expenses in the accompanying income statement.

11.2. Provisions for workforce restructuring costs

Provisions for the various workforce restructuring plans included in the accompanying statement of financial position are the result of individual or collective agreements with the Company's employees, whereby the Company undertakes to furnish a future consideration in the event of termination of employment or suspension of the employment arrangement by agreement between the parties.

11.2.1. Workforce reduction plans

The Company has made provisions for the various workforce restructuring plans involving employees who are currently in service or have taken early retirement. Under these plans, employees are guaranteed benefits from the date of early retirement until retirement age and, in certain cases, a pension annuity to supplement the state pension.

Two types of plan were in force at 31 December 2017 and 2016:

- Personnel restructuring plans approved by the former companies before the corporate restructuring in 1999. The deadline for employees to adhere to these restructuring plans has passed and the obligation therefore mainly relates to employees who have left the Company.
- Voluntary redundancy scheme approved in 2000. The scheme applies to employees with at least ten years of service in the group of companies concerned at 31 December 2005. Employees aged 50 or over at 31 December 2005 are entitled to early retirement at the age of 60. They may sign up to the scheme between the ages of 50 and 60, provided that there is an agreement between the employee and the company concerned. For the scheme to apply to employees younger than 50 at 31 December 2005, a written request from the employee and the acceptance thereof by the company are required. Employees under the age of 50 who have signed up to the voluntary redundancy scheme approved in 2000 receive a termination benefit of 45 days' salary per year of service plus an additional amount of one or two annual salary payments depending on the age of the employee in question at 31 December 2005.

In February 2006, the Directorate General for Employment amended the initial ruling on this scheme whereby the statute of limitations for employees that are aged over and under 50 can be extended beyond 31 December 2005.

The total workforce considered in the valuation of the two schemes mentioned above for 2017, is 34 persons, all of whom have now taken early retirement (62 persons, all of whom had taken early retirement in 2016).

The economic conditions applicable to the employees who have signed up to these schemes are basically as follows:

- The Company will pay the employee from the date of termination of their contract until the first date on which retirement can be taken after unemployment benefit contributions have ceased and, at most, until the employee's right is vested on reaching retirement age, a termination benefit based on their last annual salary and subject to review in line with the CPI.
- Any unemployment benefits and any other official early retirement benefits received prior to the retirement date will be deducted from the resulting amounts.

The Company recognises the full expense of these schemes when the obligations arise, either because the employee is entitled unilaterally to sign up to the scheme, individual or collective agreements have been reached with personnel, or there is a certain expectation that such an agreement to leave the Company will be arranged. The obligation is determined based on the corresponding actuarial calculation subject to annual review. Gains or losses caused by changes in assumptions, mainly the discount rate, are recognised in profit and loss.

Movements in this non-current provision at 31 December 2017 and 2016 are as follows:

Millions of Euros				
	Note	2017	2016	
Opening balance		6	12	
Amounts charged to profit for the year		-	2	
Finance expenses	16.6	-	2	
Applications		1	(8)	
Personnel income	16.3	(1)	-	
Financial income	16.6	(1)	-	
Transfers and other		3	(8)	
Closing balance		7	6	

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising under these collective redundancy procedures at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Technical interest rate	0.65%	0.64%
CPI	2.00%	2.00%
Mortality tables	PERM / F2000	PERM / F2000
Retirement age	65	65

11.2.2. Agreement on voluntary suspension or termination of employment contracts 2013-2018.

On 3 December 2013, ENDESA and employee representatives signed an "Agreement on Voluntary Suspension or Termination of Employment Contracts in 2013-2018 on the framework agreement of guarantees for ENDESA, S.A. and its electricity subsidiaries", which was registered in a Resolution by the Department of Employment of 29 December 2013, published in the Official State Gazette (BOE) on 24 January 2014, which will apply to employees affected by any reorganisation processes that may be carried out during this period.

This Agreement focuses on two groups and contemplates the following measures for each of them, and the mutual agreement of the company and the employee will be essential for them to be applied:

- For employees under 50 years old, it contemplates the possibility of the company allowing the employee to terminate the employment contract with payment of compensation.
- For employees over 50 years old, it contemplates the possibility of the company allowing the employee to suspend the employment contract for one year, in exchange for regular income during the suspension period. The suspension may be renewed for annual periods up to the ordinary date of retirement of the employee, provided neither the employee nor the company request the reinstatement of the employee.

As a result of the restructuring and reorganisation plan initiated by ENDESA, S.A., the Company has signed successive agreements with employee trade union representatives with an undertaking, in certain circumstances, not to exercise the right to request reinstatement at the company in successive annual renewals of agreements to suspend signed employment contracts.

At 31 December 2017, there were 278 employees with a suspended contract pursuant to these Agreements (208 employees at 31 December 2016).

At 31 December 2017, the provisions made to cover the obligations of this item totalled Euros 213 million, of which Euros 183 million were recognised as long-term provisions for workforce restructuring plans, and Euros 30 million as short-term provisions for workforce restructuring plans (Euros 257 million, Euros 235 million and Euros 22 million at 31 December 2016 respectively). The provisions covered the total cost to be undertaken by the Company during the period for which, in accordance with the commitments undertaken, the Company cannot prevent the employment contract from being suspended.

Movements in this non-current provision at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Note	31 December 2017	31 December 2016
Opening balance		235	160
Amounts charged to profit for the year		2	101
Personnel Expenses	16.3	-	93
Finance Expenses	16.6	2	8
Applications		(54)	(26)
Personnel income	16.3	(13)	-
Finance Income	16.6	(2)	-
Transfers and other		(39)	(26)
Closing balance		183	235

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising from the contract suspension agreement at 31 December 2017 and 2016 are as follows:

	2017	2016
Future Increase in Guarantee	2.00%	2.00%
Increase in Other Items	2.00%	2.00%
Discount rate	0.65%	0.64%
Mortality tables	PERM / F2000	PERM / F2000

11.3. Other non-current provisions.

The movements and details of other non-current provisions on the liabilities side of the accompanying statement of financial position at 31 December 2017 and 2016 were as follows:

Millions of Euros

	2017	2016
Opening balance	47	68
Charges	24	16
Applications	(11)	(37)
Closing balance	60	47

Litigation and arbitration.

At the date of preparation of these financial statements, the main lawsuits or arbitration proceedings involving the Company are as follows:

- On 8 May 2008, a decision was made on the motion filed by ENDESA, S.A. at the Spanish Supreme Court to quash a ruling by the Spanish High Court rendering null and void the order of 29 October 2002 regulating the competition transition costs (CTC) for 2001, passed in the appeal for judicial review no. 825/2002 filed by Iberdrola, S.A. The Supreme Court dismissed ENDESA, S.A.'s motion to quash the ruling from the High Court. Implementation of this decision is not expected to have any material economic effect for ENDESA, S.A., among other reasons because the ruling did not mention any possible amounts of competition transition costs, but merely stated that, in view of the total amount of book capital gains obtained by ENDESA, S.A. from the sale of Electra de Viesgo, S.L., there would be some capital gains in relation to the competition transition costs, but neither this ruling nor the Supreme Court appeal ruling stated any amount on which calculation of the potential impact on ENDESA, S.A. could be based.
- The Ruling handed down by the Supreme Court on 24 October 2016 (i) declared the Social Bonus financing system established by article 45.4 of Law 24/2013 to be inapplicable, since it was incompatible with Directive 2009/72/EC and (ii) recognised the right of ENDESA, S.A. to recover the amounts paid for this concept. The authorities submitted an application for dismissal against this ruling and subsequently filed an appeal before the Constitutional Court, which was accepted for proceedings and is currently pending resolution. Further, Order ETU/929/2017, of 28 September, was published in the Official State Gazette, according to which, in execution of the aforementioned Ruling dated 24 October 2016, the amounts paid in relation to the Social Bonus in 2015 and 2016 must be repaid, with a charge to the system, in addition to any corresponding interest.

Based on similar legal finding to those used in its Ruling of 21 October 2016, in its Ruling of 4 December 2017, the Supreme Court dismissed the counter appeal submitted by ENDESA, S.A. (i) declaring Order IET/350/2014, of 7 March, to be invalid with regard to the funding percentages of the Social Bonus in 2014, and (ii) recognising the right of ENDESA, S.A. to receive compensation for this concept. The authorities submitted an application for dismissal against this ruling which is currently pending resolution by the Supreme Court. Further, Order ETU/1288/2017, of 22 December, was published, according to which, in execution of the aforementioned Ruling dated 21 October 2016, the amounts paid in relation to the Social Bonus in 2014 must be repaid, with a charge to the system, in addition to any corresponding interest (see Notes 16.4 and 16.5).

The Company's directors do not expect that any additional significant liabilities to those already recognised in the accompanying statements of financial position will arise as a result of the above-mentioned lawsuit.

12. Current and non-current financial liabilities.

12.1. Current and non-current financial liabilities

The details of non-current debts and non-current debts to Group companies and associates in the accompanying statement of financial positions and movement at 31 December 2017 and 2016 are as follows:

Millions of Euros					
Note	Balance at 31 December 2016	Drawn	Repaid	Transfers to current	Balance at 31 December 2017
Non-current debts	478	312	(30)	(17)	743
Bank borrowings	474	300	(30)	(13)	731
Finance lease payables	1	-	-	(1)	-
Derivatives 14	-	10	-	(1)	9
Other financial liabilities	3	2	-	(2)	3
Non-current debts to Group companies and associates	4,450	1	(232)	(7)	4,212
Debts to Group companies and associates	4,443	-	(232)	-	4,211
Derivatives 14	7	1	-	(7)	1
TOTAL	4,928	313	(262)	(24)	4,955

Millions of Euros					
Note	Balance at 31 December 2015	Drawn	Repaid	Transfers to current	Balance at 31 December 2016
Non-current debts	554	2	(16)	(62)	478
Bank borrowings	547	-	(16)	(57)	474
Finance lease payables	1	1	-	(1)	1
Other financial liabilities	6	1	-	(4)	3
Non-current debts to Group companies and associates	5,375	7	(895)	(37)	4,450
Debts to Group companies and associates	5,375	-	(895)	(37)	4,443
Derivatives 14	-	7	-	-	7
TOTAL	5,929	9	(911)	(99)	4,928

Details of current debts and current debts to Group companies and associates in the accompanying statements of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros			
Note	31 December 2017	31 December 2016	
Current debts	277	292	
Bank borrowings	19	65	
Finance lease payables	1	1	
Derivatives 14	32	1	
Other financial liabilities (1)	225	225	
Current debts to Group companies and associates	1,522	1,602	
Debts to Group companies and associates	977	1,061	
Derivatives 14	4	21	
Other financial liabilities (2)	541	520	
TOTAL	1,799	1,894	

(1) At 31 December 2017, this includes the dividend payable by ENDESA, S.A. to its shareholders who do not belong to the ENEL Group, amounting to Euros 221 million (Euros 221 million at 31 December 2016) (see Note 10.4).

(2) At 31 December 2017, this includes the dividend payable by ENDESA, S.A. to ENEL Iberia, S.L.U. amounting to Euros 520 million (Euros 520 million at 31 December 2016) (see Note 10.4).

The composition of both current and non-current "Bank borrowings" and "Debts to Group companies and associates" in the accompanying statements of financial position at 31 December 2017 and 2016, are as follows:

Millions of Euros

	Note	31 December 2017		31 December 2016	
		Long term	Short term	Long term	Short term
Bank borrowings		731	19	474	65
Lines of credit		6	6	16	7
European Investment Bank (EIB) loan		725	13	438	13
Instituto de Crédito Oficial (ICO) loan		-	-	-	45
Other loans received		-	-	20	-
Debts to Group companies and associates	12.2 and 18.2	4,211	977	4,443	1,061
ENEL Finance International, N.V.		3,000	18	3,000	18
ENDESA Financiación Filiales, S.A.U.		1,196	40	1,428	30
International ENDESA, B.V.		15	889	15	932
ENDESA Capital, S.A.U.		-	-	-	36
Other debts		-	30	-	45

European Investment Bank (EIB)

Within the framework of the financial transaction (ENDESA Network Modernisation) concluded with the European Investment Bank (EIB) in 2014, Tranches B and C (each one of Euros 150 million) were available on 18 January 2017 and 20 February 2017, thus completing the provision of the transaction for a total amount of Euros 600 million. Both provisions are at floating rate, with a 12-year maturity which may be repaid from 2021.

On 21 December 2017, ENDESA, S.A. subscribed to financing, yet to be paid at the date of preparation of these financial statements, with the European Investment Bank for the amount of Euros 500 million, maturing in 12 years and offering a three-year grace period.

12.2. Non-Current and current Debts to Group companies and associates

ENEL Finance International N.V.

On 30 November 2011, ENDESA, S.A. formally arranged a committed and irrevocable intercompany line of credit with ENEL Finance International, N.V., the current limit of which is Euros 1,000 million. On 30 June 2017, ENDESA, S.A. renegotiated the extension of this credit line to 30 June 2020, and adjusted its economic conditions. The margin and fee applicable if the facility is not used are 55 basis points and 18 basis points, respectively. At 31 December 2017 and 2016 said committed and irrevocable credit line was not drawn (see Note 18.2).

On 23 October 2014, ENDESA, S.A. formally arranged a long-term 10-year intercompany loan with ENEL Finance International, N.V. for Euros 4,500 million at a fixed rate of interest of 3.0%. On 30 June 2015, ENDESA, S.A. made a partial repayment of Euros 1,500 million on this loan, meaning that at 31 December 2017 and 2016, the outstanding balance of this long-term loan entered into with ENEL Finance International N.V. came to Euros 3,000 million (see Notes 12.1 and 18.2).

On 23 December 2015, ENDESA S.A. formally arranged an uncommitted intercompany line of credit with ENEL Finance International N.V., for Euros 1,500 million, extending which was renewed on 28 December 2017, extending the maturity to 28 December 2018, with the rest of the terms unchanged. At 31 December 2017 and 2016, this uncommitted line of credit had not been drawn down (see Note 18.2).

The interest on these debts amounted to Euros 18 million at 31 December 2017 and 2016 and are recognised under "Current debts to Group companies and associates" (see Note 18.2).

ENDESA Financiación Filiales, S.A.U.

The Company has a five-year current account financing contract with ENDESA Financiación Filiales, S.A.U. currently maturing on 1 July 2021, automatically renewable for five-year periods at maturity unless either of the parties notifies their intention of not renewing the contract before maturity at least 13 months prior to the end of the period. The interest rate applied to both receivables and payables is the 6-month Euribor plus a spread equal to that on the Euribor obtained by ENDESA in existing credit facilities at that date.

This contract stipulates that the Company may draw down the amounts required to cover its financial needs and invest its surpluses to regulate its cash flows. There is no limit on the amount of cash that can be withdrawn by any party, while the average interest rate applied in 2017 and 2016 was 2.4% and 2.6%, respectively. At 31 December 2017 and 2016, the amounts drawn down on this credit facility totalled Euros 1,196 million and Euros 1,427 million, respectively, and are recognised under the heading "Non-current debts to Group companies and associates" (see Notes 12.1 and 18.2).

ENDESA, S.A. also had a cash pooling account in foreign currency at 31 December 2017 and 2016, with ENDESA Financiación Filiales, S.A.U. for a term of five years, currently maturing on 1 October 2018. It is automatically renewable for five-year periods at maturity unless either party notifies the other of its decision not to renew the account before the end of the period. At 31 December 2016, the amount recognised under the heading "Non-current debts to Group companies and associates" came to Euros 1 million, whilst there is no balance drawn for this item at 31 December 2017 (see Notes 9, 12.1 and 18.2).

At 31 December 2017, the interest payable on the credit facility arranged with ENDESA Financiación Filiales, S.A.U. for a total amount of Euros 40 million (Euros 30 million at 31 December 2016) was included under "Current debts to Group companies and associates" (see Notes 12.1 and 18.2).

International ENDESA, B.V.

At 31 December 2017 and 2016, the amount drawn down on the line of credit arranged with International ENDESA, B.V. amounted to Euros 15 million and was recognised under "Current debts to Group companies and associates" (see Notes 12.1 and 18.2). The interest rate accrued in 2017 was negative -0.23% (negative -0.09% in 2016) with a credit limit of Euros 30 million (see Notes 12.1 and 18.2).

Likewise, at 31 December 2017, the loan granted by International ENDESA B.V., as part of the short-term promissory notes programme, along with the accrued interest payable, which amounted in total to Euros 889 million (Euros 932 million at 31 December 2016) were included in the item "Other financial liabilities" under the heading "Current debts to Group companies and associates" (see Notes 12.1 and 18.2). The interest rate accrued in 2017 was -0.26% (-0.14% in 2016) (see Notes 12.1 and 18.2).

ENDESA Capital, S.A.U.

At 31 December 2016, current debts to Group companies and associates included the loan arranged with ENDESA Capital, S.A.U. for Euros 36 million, which accrued an interest rate between 0.13% and 0.20% during 2016. During 2017, this loan was repaid in full (see Notes 12.1 and 18.2).

Other debts.

Non-current debts to Group companies and associates at 31 December 2017, includes the loan granted by Nuclenor, S.A. for Euros 24 million at 31 December 2017 (Euros 27 million at 31 December 2016) (see Notes 12.1 and 18.2).

Furthermore, at 31 December 2017, "Current debts to Group companies and associates" included the amount payable to ENEL Iberia, S.L.U. for Value Added Tax (VAT) for the sum of Euros 5 million (see Notes 8.1.2, 15.9 and 18.2).

At 31 December 2016, the Company held an account receivable with ENEL Iberia, S.L.U. for this item (see Notes 8.1.2, 15.9 and 18.2).

12.3. Classification of current and non-current financial liabilities by class and category

The classification of these current and non-current financial liabilities items by category and nature, and a comparison of the fair value with the carrying amount at 31 December 2017 and 2016 are as follows:

Millions of Euros

31 December 2017					
	Note	Debts and payables	Financial liabilities held for trading	Other financial liabilities at fair value through profit and loss	Total
Non-current debts		734	9	-	743
Bank borrowings		731	-	-	731
Derivatives	14	-	9	-	9
Other financial liabilities		3	-	-	3
Non-current Debts to Group companies and associates	18.2	4,211	1	-	4,212
Debts to Group companies and associates		4,211	-	-	4,211
Derivatives	14	-	1	-	1
Total non-current		4,945	10	-	4,955
Current debts		245	32	-	277
Bank borrowings		19	-	-	19
Finance lease payables		1	-	-	1
Derivatives	14	-	32	-	32
Other financial liabilities		225	-	-	225
Current Debts to Group companies and associates	18.2	1,518	4	-	1,522
Debts to Group companies and associates		977	-	-	977
Derivatives	14	-	4	-	4
Other financial liabilities		541	-	-	541
Trade and other payables		186	-	-	186
Total current		1,949	36	-	1,985
TOTAL		6,894	46	-	6,940
TOTAL FAIR VALUE		7,411	46	-	7,457

Millions of Euros

31 December 2016					
	Note	Debts and payables	Financial liabilities held for trading	Other financial liabilities at fair value through profit and loss ⁽¹⁾	Total
Non-current debts		457	-	21	478
Bank borrowings		453	-	21	474
Finance lease payables		1	-	-	1
Other financial liabilities		3	-	-	3
Non-current Debts to Group companies and associates	18.2	4,443	7	-	4,450
Debts to Group companies and associates		4,443	-	-	4,443
Derivatives		-	7	-	7
Total non-current		4,900	7	21	4,928
Current debts		291	1	-	292
Bank borrowings		65	-	-	65
Finance lease payables		1	-	-	1
Derivatives	14	-	1	-	1
Other financial liabilities		225	-	-	225
Current Debts to Group companies and associates	18.2	1,581	21	-	1,602
Debts to Group companies and associates		1,061	-	-	1,061
Derivatives	14	-	21	-	21
Other financial liabilities		520	-	-	520
Trade and other payables		131	-	-	131
Total current		2,003	22	-	2,025
TOTAL		6,903	29	21	6,953
TOTAL FAIR VALUE		7,537	29	21	7,587

(1) Relates entirely to financial liabilities that are embedded in a fair value hedge since the contract date.

Financial liabilities held for trading, financial liabilities at fair value through profit and loss and hedging derivatives are measured at fair value. Financial liabilities held for trading are financial derivatives not designated for accounting purposes as hedging instruments.

Pursuant to the measurement criteria, items covered by fair-value hedging derivatives are included under other financial liabilities at fair value through profit and loss.

The fair value of financial liabilities is measured taking into account observable market variables, specifically by estimating discounted future cash flows using zero-coupon yield curves for each currency on the last working day of each closure, translated to euros at the exchange rate prevailing on the last working day of each closure. All these measurements are made using internal tools.

At 31 December 2017 and 2016, the fair value of the Company's non-current debts under "Debts and payables" did not differ substantially from the carrying amount.

12.4. Classification by maturity

Details of non-current financial liabilities at 31 December 2017 and 2016 by maturity are as follows:

Millions of Euros							
31 December 2017	Note	2019	2020	2021	2022	Subsequent years	Total
Non-current debts		23	20	13	13	674	743
Bank borrowings		13	19	13	13	673	731
Derivatives	14	9	-	-	-	-	9
Other financial liabilities		1	1	-	-	1	3
Non-current Debts to Group companies and associates	18.2	1	-	1,196	-	3,015	4,212
Debts to Group companies and associates		-	-	1,196	-	3,015	4,211
Derivatives	14	1	-	-	-	-	1
TOTAL		24	20	1,209	13	3,689	4,955

Millions of Euros							
31 December 2016	Note	2018	2019	2020	2021	Subsequent years	Total
Non-current debts		29	13	14	14	408	478
Bank borrowings		27	13	13	13	408	474
Finance lease payables		1	-	-	-	-	1
Other financial liabilities		1	-	1	1	-	3
Non-current Debts to Group companies and associates	18.2	7	1	-	1,428	3,014	4,450
Debts to Group companies and associates		1	-	-	1,428	3,014	4,443
Derivatives	14	6	1	-	-	-	7
TOTAL		36	14	14	1,442	3,422	4,928

In 2017, the average rate of interest was 2.4% on bank borrowings (2.7% in 2016) and 1.3% on debt to Group companies (2.0% in 2016).

12.5. Items recognised in the income statement and in equity

In 2017 and 2016, the applications made in the statement of profit or loss and in net equity linked to non-current and current financial liabilities grouped by the different categories are as follows:

Millions of Euros				
	2017		2016	
	Net gain/(loss)	Equity	Net gain/(loss)	Equity
Debts and payables	(141)	-	(164)	-
Financial liabilities at fair value through profit and loss	(107)	-	(28)	-
Financial liabilities held for trading	(107)	-	(28)	-
TOTAL	(248)	-	(192)	-

12.6. Financial liabilities at fair value through profit or loss

The variation in fair value of this type of financial liabilities in 2017 and 2016 is as follows:

Millions of Euros

	Fair value at 31 December 2016	Variation in fair value of derivatives	Settlements of derivatives	Other movements	Fair value at 31 December 2017
Other financial liabilities at fair value through profit and loss	21	-	-	(21)	-
Non-current	21	-	-	(21)	-
Financial liabilities held for trading	29	107	(57)	(33)	46
Non-current	7	11	-	(8)	10
Current	22	96	(57)	(25)	36
TOTAL	50	107	(57)	(54)	46

Millions of Euros

	Fair value at 31 December 2015	Variation in fair value of derivatives	Settlements of derivatives	Other movements	Fair value at 31 December 2016
Other financial liabilities at fair value through profit and loss	21	-	-	-	21
Non-current	21	-	-	-	21
Financial liabilities held for trading	12	51	(31)	(3)	29
Non-current	-	7	-	-	7
Current	12	44	(31)	(3)	22
TOTAL	33	51	(31)	(3)	50

12.7. Hedges of financial liabilities

At 31 December 2016, the value of financial liabilities related to fair value hedges was Euros 21 million (see Note 12.3). The value of the derivative that hedged fluctuations in the fair value of this debt, recognised under current financial investments, was Euros 1 million in 2016.

12.8. Financial stipulations

ENDESA, S.A.'s debt is subject to the usual covenants in contracts of this type. In no cases would a breach of these covenants require early repayment of the debt.

At 31 December 2017 and 2016, ENDESA, S.A. was not in breach of covenants or any other financial obligations that would require early repayment of its liabilities.

The Company's directors do not consider that these clauses will change the current/non-current classification in the accompanying statement of financial position at 31 December 2017 and 2016.

Credit rating clauses.

At 31 December 2017 and 2016, ENDESA, S.A. had entered into financial transactions with the European Investment Bank (EIB), with amounts of Euros 600 million and Euros 300 million paid, respectively, that could require additional guarantees or renegotiation if its credit rating were downgraded to below certain levels.

Clauses related to the change of control.

At 31 December 2017, ENDESA, S.A. has loans and other borrowings from banks and ENEL Finance International, N.V. of approximately Euros 5,738 million, with an outstanding debt of Euros 3,738 million, which might have to be repaid early in the event of a change of control over ENDESA, S.A. (Euros 5,250 million at 31 December 2016, with an outstanding debt of Euros 3,450 million).

Clauses related to the assignment of assets.

Part of the debt of ENDESA S.A. includes restrictions if a certain percentage of the consolidated assets of ENDESA S.A. and Subsidiaries is surpassed, which varies for the related transactions from 7% to 10%.

Above these ceilings, the restrictions would only apply, in general, if no equivalent consideration is received or if there was a material negative impact on ENDESA, S.A.'s solvency.

The amount of debt affected by these clauses at 31 December 2017 is Euros 738 million (Euros 495 million at 31 December 2016).

12.9. Other matters

At 31 December 2017 and 2016, ENDESA, S.A. had an undrawn line of credit available totalling Euros 3,096 million and Euros 3,202 million, respectively, of which Euros 1,000 million correspond to a line of credit committed and irrevocable, arranged with ENEL Finance International, N.V. (see Notes 12.2 and 13.3).

13. Risk management and control policy.

ENDESA, S.A. is exposed to certain risks which it manages by applying risk identification, measurement, concentration limitation and supervision systems, all of which are implemented throughout the Group of which it is the parent.

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

The general principles of the Risk Management and Control Policy are as follows:

- The Board of Directors of ENDESA, S.A. is responsible for determining the Risk Management and Control Policy, including tax issues, the supervision of the internal information and control systems and the setting of the acceptable risk level at all times.
- The Risk Committee carries out the risk management and control functions under the direct supervision of the Audit and Compliance Committee (CAC).
- ENDESA S.A. must establish the rules and tools necessary to be able to develop a continuous process of identification, quantification and information on all relevant risks that might affect the Company.
- The operational organisation of risk management and control is carried out through the risk control and risk management functions, which are independent from each other.
- The businesses, corporate areas, lines of business and companies establish the risk management controls required to ensure that transactions are performed in the markets in accordance with the policies, principles and procedures and, in any event, abiding by the following limits and provisions:
 - Alignment of the risk levels with the objectives set by the Board of Directors.

- Optimisation of risk management and control on a consolidated basis, priority being given this rather than individual management of each individual risk.
- Continuous evaluation of the hedging, transfer and mitigation measures to guarantee its suitability and the adoption of best market practices.
- Monitoring of the prevailing legislation, standards and regulations, including those relating to tax, to guarantee that transactions are performed in accordance with the rules governing the business.
- Upholding and complying with internal rules, focusing in particular on Corporate Governance, the Ethical Code, the Zero-Tolerance Plan Against Corruption and the general principles for criminal risk prevention.
- The duty to protect the health and safety of those working within and for the Company.
- Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental impacts on the Company's activities.
- Responsible optimisation of the use of resources available in order to provide shareholders with a return as part of corporate relations based on the principles of loyalty and transparency.
- The Company's financial policies are aimed at active management of the financial risks associated with ordinary business and, in general, speculative positions are restricted.

The general guidelines for the Risk Management and Control Policy are developed and supplemented by other corporate and specific risk policies for each business line, as well as the limits established for optimum risk management.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A.

The Company's risk management and control model is based partly on the ongoing study of the risk profile, current best practices in the electricity sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising their risk-return ratio, as determined by the Board of ENDESA, S.A.

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred by the Company and its businesses. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to its objectives.

The risk management and control mechanism are set out in the following notes.

13.1. Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities bearing interest at fixed rates and the future flows from assets and liabilities indexed to variable interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.

Depending on the Company's estimates and targeted debt structure, hedging transactions are carried out by arranging derivatives to mitigate these risks. ENDESA, S.A. has contracted swaps to mitigate its interest rate risk.

ENDESA, S.A.'s interest rate risk structure, taking into account the derivatives arranged, at 31 December 2017 and 2016, is as follows:

Millions of Euros		Net position	
	31 December 2017		31 December 2016
Fixed interest rate		3,001	3,001
Floating interest rate		2,843	2,911
TOTAL		5,844	5,912

The reference interest rate for the borrowings arranged is mainly Euribor.

Details of hedged financial assets and liabilities and the derivative financial instruments obtained to hedge them are provided in Notes 8, 12 and 14.

Interest-rate sensitivity analysis

At 31 December 2017 and 2016, the impact of interest-rate fluctuations on the income statement and statement of recognised income and expense, all other variables remaining constant, is as follows:

Millions of Euros		31 December 2017		31 December 2016	
	Basis points change	Income statement	Statement of recognised income and expense	Income statement	Statement of recognised income and expense
Finance costs of variable gross borrowings after derivatives					
Interest rate increase	+25	10	-	10	-
Interest rate reduction	-25	(10)	-	(10)	-

13.2. Currency risk

The currency risks correspond, primarily, to debt contracted in foreign currency and payments to be made and received in international markets for the acquisition or sale of energy stocks or for investments in property, plant and equipment.

ENDESA, S.A. has arranged futures to mitigate its currency risk. The Company also tries to balance cash collections and payments for its assets and liabilities in foreign currency.

At 31 December 2017 and 2016, ENDESA, S.A. did not have a significant portion of debt in foreign currency or that was not hedged by derivatives and exchange rate insurance.

Details of hedged financial assets and liabilities and the derivative financial instruments obtained to hedge them are provided in Notes 8, 12 and 14.

Assets and liabilities in foreign currency are disclosed in Note 9.

Exchange-rate sensitivity analysis

At 31 December 2017 and 2016, the impact on the income statement and statement of recognised income and expense of a 10% fluctuation of the euro against all other currencies, all other variables remaining constant, is not considered material.

13.3. Liquidity risk

The ENDESA, S.A.'s liquidity policy consists of arranging committed long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period based on the status and expectations of the debt and capital markets.

At 31 December 2017, ENDESA, S.A. had liquidity of Euros 3,126 million (Euros 3,223 million at 31 December 2016), is as follows:

Millions of Euros	Liquidity	
	31 December 2017	31 December 2016
Cash and Cash Equivalents	30	21
Unconditional Available in Credit Lines ⁽¹⁾	3,096	3,202
TOTAL	3,126	3,223

(1) At 31 December 2017 and 2016, Euros 1.000 million corresponds to the credit line committed and irrevocable available with ENEL Finance International N.V. (see Note 12.2).

The amount of these lines of credit, together with the current assets, provide sufficient coverage of the Company's short-term payment obligations (see Note 2.4).

The classification of financial liabilities by contractual maturities is shown in Note 12.4.

13.4. Credit risk

Credit risk is generated when a counterparty does not meet its obligations set out in a financial or commercial contract, giving rise to financial losses. ENDESA S.A. is exposed to credit risk from its operational and financial activities, including derivatives, deposits with banks, transactions in foreign currency and other financial instruments.

Unexpected changes to the credit rating of a counterparty have an impact on the creditor's position in terms of solvency (non-compliance risk) or changes to market value (spread risk).

The Company mainly trades with counterparties in the Endesa Group and therefore, it is exposed to limited credit risk.

Despite this, the Company monitors credit risk very closely, and takes measures including the following:

- Risk analysis, assessment and monitoring of counterparty credit quality.
- Establishing contractual clauses guarantee requests, or contracting insurance where necessary.
- Exhaustive monitoring of trade receivables

Policies for managing credit risk on financial assets followed by ENDESA, S.A. consists on placing its cash surpluses in accordance with its risk management policy, which dictates that counterparties must be leading entities in the markets in which they operate.

At 31 December 2017, the greatest exposure to cash positions held with a counterparty was Euros 12 million, of a total of Euros 30 million, this counterparty has a rating of A- (Euros 12 million of a total of Euros 18 million at 31 December 2016, this counterparty has a rating of BBB+).

Details of financial assets exposed to credit risk are provided in Note 8.

14. Derivative financial instruments.

Applying the risk management policy described above, the Company mainly uses interest rate and foreign currency hedging derivatives.

The Company categorises its hedges as follows:

- Cash flow hedges: which hedge the cash flows on the hedged underlying.
- Fair value hedges: which hedge the fair value of the hedged underlying.

Details of the valuation of derivative financial instruments at 31 December 2017 and 2016 are as follows:

Millions of Euros				
31 December 2017				
	Assets (Note 8)		Liabilities (Note 12.1)	
	Current	Non-current	Current	Non-current
Derivatives not designated as hedging instruments	36	10	35	10
Foreign currency	36	10	35	10
Other derivatives	1	-	1	-
TOTAL	37	10	36	10

Millions of Euros				
31 December 2016				
	Assets (Note 8)		Liabilities (Note 12.1)	
	Current	Non-current	Current	Non-current
Derivatives not designated as hedging instruments	21	7	21	7
Foreign currency	21	7	21	7
Other derivatives	1	-	1	-
TOTAL	22	7	22	7

Fair value hedges

In 2017 and 2016, fair value hedges did not have a significant impact on the income statement.

At 31 December 2017, the Company had no fair value hedging derivatives.

Details by maturity of the notional and/or contractual amounts of derivatives contracted by the Company, and their fair value at 31 December 2016, are as follows:

Millions of Euros								
	Fair value	31 December 2016						
		Notional value						
		2017	2018	2019	2020	2021	Subsequent years	Total
INTEREST RATE HEDGES								
Fair value hedges:	-	21	-	-	-	-	-	21
Swaps ⁽¹⁾	-	21	-	-	-	-	-	21
TOTAL	-	21	-	-	-	-	-	21

(1) At 31 December 2016, an uncollected interest receivable of Euros 1 million was recognised in other financial assets under current assets, in relation to this hedge.

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Company, since these amounts only constitute the basis on which the derivative settlement calculations were made.

Derivatives not designated as hedging instruments

Details by maturity of the notional or contractual amounts of derivatives not designated for accounting purposes as hedging instruments contracted by the Company, and their fair value at 31 December 2017 and 2016, are as follows:

Millions of Euros								
31 December 2017								
	Fair value	Notional value						Total
		2018	2019	2020	2021	2022	Subsequent years	
Commodity trades:	1	2,211	1,019	167	2	-	-	3,399
Foreign currency:	1	2,211	1,019	167	2	-	-	3,399
Futures	1	2,193	1,011	162	2	-	-	3,368
Others	-	18	8	5	-	-	-	31

Millions of Euros								
31 December 2016								
	Fair value	Notional value						Total
		2017	2018	2019	2020	2021	Subsequent years	
Commodity trades:	-	1,034	207	36	-	-	-	1,277
Foreign currency:	-	1,034	207	36	-	-	-	1,277
Futures	-	1,034	207	36	-	-	-	1,277

Other derivatives.

In 2017 and 2016, an expense of less than Euros 1 million was recognised in the statement of profit or loss for other derivatives is less than Euros 1 million.

15. Taxation.

In 2017 and 2016, the Company filed consolidated tax returns as required under Law 27/2014 of 27 November on corporate income tax. The Company forms part of tax group 572/10, of which ENEL S.p.A. is the parent company and ENEL Iberia, S.L.U. the representative in Spain.

At 31 December 2017 and 2016, the corporate income tax credit with ENEL Iberia, S.L.U., amounted to Euros 58 million and Euros 141 million and was recognised under "Current investment with Group companies and associates" in the accompanying statement of financial position (see Notes 8.1.2, 15.9 and 18.2).

In 2017, the amount of corporate income tax resulted in income of Euros 4 million in the statement of profit or loss (Euros 82 million of income in 2016) and decrease of Euros 1 million in equity (increase of Euros 4 million in 2016).

The Company forms part of Value Added Tax (VAT) group 45/10 headed by ENEL Iberia, S.L.U. as the parent company.

15.1. Reconciliation between accounting profit and tax loss

The reconciliation between accounting profit and tax loss in 2017 and 2016 is as follows:

Millions of Euros

2017	Income statement			Income and expenses recognised directly in equity			Reserves		
	Increases	Decreases	Total	Increases	Decreases	Total	Increases	Decreases	Total
Accounting profit after income tax			1,491			3			-
Income tax for the year			(4)			1			-
Accounting profit before tax			1,487			4			-
Permanent differences	8	(1,503)	(1,495)	-	-	-	-	-	-
Temporary differences	37	(83)	(46)	(4)	-	(4)	-	-	-
Arising in the year	37	-	37	(4)	-	(4)	-	-	-
Arising in prior years	-	(83)	(83)	-	-	-	-	-	-
Tax loss			(54)			-			-

Millions of Euros

2016	Income statement			Income and expenses recognised directly in equity			Reserves		
	Increases	Decreases	Total	Increases	Decreases	Total	Increases	Decreases	Total
Accounting profit after income tax			1,419			(12)			-
Income tax for the year			(83)			(4)			-
Tax rate adjustment (Law 27/2014 of 27 November)			1			-			-
Accounting profit before tax			1,337			(16)			-
Permanent differences	4	(1,692)	(1,688)	-	-	-	-	-	-
Temporary differences	125	(128)	(3)	-	16	16	-	-	-
Arising in the year	125	-	125	-	-	-	-	-	-
Arising in prior years	-	(128)	(128)	-	16	16	-	-	-
Tax loss			(354)			-			-

2017

Increases due to permanent differences in 2017 relate to donations and gifts totalling Euros 4 million and the provision for liabilities Euros 4 million. The decreases correspond to the application of the exemption to avoid double taxation on foreign dividends for the sum of Euros 1,503 million (see Note 16.1).

The increases due to temporary differences reflect non-current employee provisions and workforce restructuring plans of Euros 18 million, and a provision for liabilities of Euros 19 million. The decreases relate to the use of provisions for long-term employee benefits and workforce restructuring plans, for Euros 82 million, and recovery of the adjustment due to tax-deductible depreciation, (Law 16/2012 of 27 December) for Euros 1 million.

2016

Increases due to permanent differences in 2016 reflect donations and gifts totalling Euros 4 million. The decreases correspond to the dividends of the Consolidated Tax Group of Euros 1,594 million (see Note 16.1), to the capital gain generated by the sale of ENEL Insurance, N.V. for Euro 94 million (see Notes 8, 16.2 and 18.1) and provisions for liabilities of Euro 4 million.

The increases due to temporary differences reflect non-current employee benefits and workforce restructuring plans of Euros 119 million, and a provision for liabilities of Euros 6 million. The decreases relate mainly to the application of provisions for non-current employee benefits and workforce restructuring plans for Euros 95 million, recovery of the provisions made for impairment of loans with related companies for Euros 28 million, and recovery of the provisions made for the limitation on tax-deductible depreciation (Law 16/2012 of 27 December) for Euros 3 million.

15.2. Reconciliation between tax payable and income tax expense

The reconciliation between tax payable and income tax expense in 2017 and 2016 is as follows:

Millions of Euros		
	2017	2016
Tax loss	(54)	(354)
Income statement	(54)	(354)
Total taxable income	(54)	(354)
Tax rate	25.0	25.0
Tax payable	(13)	(89)
Application of tax deductions and rebates	(1)	(1)
Recovery of tax credit	(4)	(12)
Effective tax	(18)	(102)
Change in deductions	1	11
Net tax effect, due to temporary differences	12	(3)
Prior years' adjustments and other	2	8
Income tax for the year	(3)	(86)
Income tax in income statement	(4)	(82)
Income tax in equity	1	(4)

15.3. Deductions and rebates

In 2017, the Company has recognised deductions and rebates for the total sum of Euros 4 million, which corresponds, mainly, to deductions concerning participation in events of exceptional public interest pursuant to the provisions of Law 49/2002 of 23 December (Euros 2 million), deductions for contributions to companies regulated by said law (Euros 1 million) (Euros 2 million in 2016) and deductions for research and development activities (Euros 1 million). Of the deductions recognised in 2017, Euros 1 million were applied to contributions to entities regulated by Law 49/2002, of 23 December.

Similarly, prior years' deductions amounting to Euros 4 million were applied during 2017.

15.4. Reconciliation between accounting profit and income tax expense

In 2017 and 2016, the reconciliation of accounting profit/(loss) to income tax expense is as follows:

Millions of Euros			
	2017		
	Income statement	Income and expenses directly recognised in equity	Recognised income and expenses
Accounting profit before tax	1,487	4	1,491
Permanent differences	(1,495)	-	(1,495)
Total adjusted profit/(loss)	(8)	4	(4)
Tax rate of 25%	(2)	1	(1)
Deductions	(4)	-	(4)
Research, development and innovation expenses	(1)	-	(1)
Events of exceptional public interest	(2)	-	(2)
For gifts to non-profit entities and patronage	(1)	-	(1)
Prior years' adjustments and other	2	-	2
Total income tax expense	(4)	1	(3)

Millions of Euros

	2016		
	Income statement	Income and expenses directly recognised in equity	Recognised income and expenses
Accounting profit before tax	1,337	(16)	1,321
Permanent differences	(1,688)	-	(1,688)
Total adjusted profit/(loss)	(351)	(16)	(367)
Tax rate of 25%	(88)	(4)	(92)
Deductions	(2)	-	(2)
For gifts to non-profit entities and patronage	(1)	-	(1)
Other tax relief	(1)	-	(1)
Prior years' adjustments and other	8	-	8
Total income tax expense	(82)	(4)	(86)

15.5. Details of the income tax expense

The breakdown of the income tax expense for 2017 and 2016 is as follows:

	2017				
	Current tax	Change in deferred tax			Total
		Assets		Liabilities	
		Temporary differences	Other credits	Temporary differences	
Recognition in income statement, of which:	(18)	12	-	-	(6)
Continuing operations	(18)	12	-	-	(6)
Recognition in equity, of which:	-	1	-	-	1
From Actuarial Gains and Losses and other Adjustments	-	1	-	-	1
Prior years' adjustments and other	1	2	(1)	-	2
Total	(17)	15	(1)	-	(3)

	2016				
	Current tax	Change in deferred tax			Total
		Assets		Liabilities	
		Temporary differences	Other credits	Temporary differences	
Recognition in profit and loss, of which:	(102)	1	11	-	(90)
Continuing operations	(102)	1	11	-	(90)
Recognition in equity, of which:	-	(4)	-	-	(4)
From Actuarial Gains and Losses and other Adjustments	-	(4)	-	-	(4)
Prior years' adjustments and other	16	(6)	(2)	-	8
Total	(86)	(9)	9	-	(86)

15.6. Deferred tax assets

At 31 December 2017 and 2016, deferred taxes assets recognised in the statement of financial position is as follows:

Millions of Euros

Deferred tax assets	31 December 2017	31 December 2016
Provisions for long-term employee benefits and workforce restructuring plans	92	107
Other provisions	34	33
Unused tax credits	6	6
Total	132	146

The movements and breakdown of deferred tax assets on the accompanying statement of financial position in 2017 and 2016 are as follows:

Millions of Euros

	2017			2016		
	Temporary differences	Deductions pending	Total	Temporary differences	Deductions pending	Total
Opening balance	140	6	146	131	15	146
Temporary differences originating in the year	9	3	12	31	1	32
Application of temporary differences originating in prior years	(21)	(3)	(24)	(32)	(12)	(44)
Changes taken to equity	(1)	-	(1)	4	-	4
Prior years' adjustments and other	(1)	-	(1)	6	2	8
Closing balance	126	6	132	140	6	146

The Company has no applicable tax loss carryforwards.

At December 31, 2017, the Company has deferred tax assets amounting to Euros 132 million, of which, for the most part, it is foreseen that its recovery will occur within a period of 10 years. For those whose recovery is expected in a longer period, there are deferred tax liabilities with the same tax authority and for a sufficient amount, which is expected to be reversed in the same fiscal year in which the deferred tax assets are expected to revert (Euros 146 million as of December 31, 2016).

At 31 December 2017, the Company has unused tax credits pending application in future years, corresponding to the deductions not applied for the years 2014 to 2017 (at 31 December 2016, they related to the years 2012 to 2016). The detail of these deductions and the year in which they could be used, is the following:

Millions of Euros

Year	31 December 2017	31 December 2016
2030	-	1
2031	1	2
2032	2	1
2033	1	1
2034	1	-
2035	1	-
TOTAL	6	5

The information relating to the deductions applied in 2017 and 2016 is included in Note 15.3.

The Company's Directors consider that the deferred tax assets recognised will be recovered.

15.7. Deferred tax liabilities

At 31 December 2017 and 2016, deferred taxes liabilities recognised in the statement of financial position is as follows:

Millions of Euros

Deferred tax liabilities at	31 December 2017	31 December 2016
Others	34	34
Total	34	34

The movements of deferred tax liabilities on the accompanying statement of financial position in 2017 and 2016 were not significant.

15.8. Balances with public administrations

There were no balances receivable that the Company has with public administrations at 31 December 2017 (Euros 1 million at 31 December 2016, mainly corresponding to withholdings and payments on account for Spanish personal income tax (IRPF)).

The balances payable that the Company has with public administrations at 31 December 2017 and 2016, are the following:

Millions of Euros

	31 December 2017	31 December 2016
Spanish personal income tax (IRPF) payable	3	4
Social Security contributions payable	2	2
TOTAL LIABILITIES	5	6

15.9. Balances with Group companies.

At 31 December 2017 and 2016, the Company recognised a corporate income tax credit with ENEL Iberia, S.L.U., for Euros 18 million and Euros 102 million under "Current loans to Group companies and associates" in the accompanying statement of financial position, as per the following breakdown (see Notes 8.1.2 and 18.2):

Millions of Euros

	31 December 2017	31 December 2016
Loss carryforwards	13	89
Deductions	4	13
Withholdings and payments on account	1	-
TOTAL	18	102

At 31 December 2017, a corporate income tax credit exists with ENEL Iberia, S.L.U., amounting to Euros 40 million (Euros 39 million at 31 December 2016) (see Notes 8.1.2, 12.2 and 18.2).

At 31 December 2017, the amount receivable from ENEL Iberia, S.L.U. for Value Added Tax (VAT) recognised under current Debts to Group companies and associates in the accompanying statement of financial position amounted to Euros 5 million (Euros 1 million, recognised in current loans to Group companies and associates at 31 December 2016) (see Notes 8.1.2, 12.2 and 18.2).

15.10. Years open to tax inspection

Under the prevailing legislation, taxes cannot be considered definitively settled until the returns presented have been inspected by the tax authorities or inspection period of four years has elapsed. At year-end 2017, the Company has its books open to inspection for 2006, 2011 and onwards regarding income tax and for 2012 and onwards in respect of all other applicable taxes.

In 2016, the tax authorities commenced a review of corporate income tax, VAT and withholdings, which could give rise to contingent liabilities. At the date of these annual financial statements, information was being collected and analysed by the tax authorities, accordingly, with this final stage of the process expected to come to an end in the third quarter of 2018.

The taxes and years open to review are as follows:

	Years
Income Tax	2011 to 2014
Value added tax (VAT)	March/2012 to December/2014
Withholdings/payments on account (employees and freelancers)	2011 to 2014
Withholding / payment on account (investment income)	March/2012 to December/2014
Withholding / payments on account (non-resident taxes)	March/2012 to December/2014
Withholdings / payments on account (property leases)	March/2012 to December/2014

The Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of these operations, the accompanying financial statements would not be significantly affected by any resulting liabilities.

The Company's directors do not expect that the liabilities that could arise in this regard would significantly affect its future profits.

15.11. Corporate restructuring undertaken under the special regime in Chapter VII, Title VII, of Law 27/2004 of 27 November on income tax

The Notes to the Company's financial statements for 1999 to 2016 include the information required under article 86 of Law 27/2014 of 27 November regarding the corporate restructuring operations carried out in prior years.

16. Profit/(loss).

The Company's main income and expense for 2017 and 2016 are detailed below.

16.1. Revenue

Details of revenue in the accompanying statements of profit or loss for 2017 and 2016 by category and geographical markets are as follows:

Millions of Euros					
2017	Note	Spain	Other EU	Latin America	Total
Rendering of services	18.1	258	2	-	260
Dividends from Group companies and associates	8.1.1 and 18.1	1,503	-	-	1,503
TOTAL		1,761	2	-	1,763

Millions of Euros					
2016	Note	Spain	Other EU	Latin America	Total
Rendering of services	18.1	210	2	1	213
Dividends from Group companies and associates	8.1.1 and 18.1	1,594	-	-	1,594
TOTAL		1,804	2	1	1,807

Dividends from Group companies and associates includes dividends distributed by the Group companies (Note 8.1.1).

16.2. Impairment losses in Group companies and associates

In 2016, this item included the income of Euros 94 million from the sale of the stake in ENEL Insurance, N.V. (See Notes 8.1.1 and 18.1).

16.3. Personnel expenses.

Details of personnel expenses in the accompanying statement of profit or loss for 2017 and 2016 are as follows:

Millions of Euros			
	Note	2017	2016
Wages and salaries		119	120
Termination benefits		1	5
Other employee benefits		31	32
Social security		19	19
Other		12	13
Provisions		(6)	106
Non-current employee benefits	11.1	8	8
Obligations for workforce reduction plans	11.2.1	(1)	-
Obligations for contract suspensions	11.2.2	(13)	93
Other provisions		-	5
TOTAL		145	263

16.4. Other operating expenses

Details of other operating expenses in the accompanying statement of profit or loss for 2017 and 2016 are as follows:

Millions of Euros			
	Note	2017	2016
External services		113	105
Leases and levies	7.1	10	11
Other repairs and upkeep costs		9	1
Independent professional services		20	20
Banking and similar services		2	1
Advertising and public relations		18	17
Other external services		54	55
Taxes other than income tax		1	1
Other operating expenses		111	59
TOTAL		225	165

In 2017 the "Leases and Levies" caption includes the expense of the contracts of these characteristics formalized with Group and Associated Companies amounting to Euros 9 million (Euros 9 million in 2016) (see Notes 7.1 and 18.1).

In 2017, "Other operating expenses" also includes the cost of other services rendered by Group Companies and associates amounted to Euros 40 million (Euros 39 million in 2016) (see Note 18.1).

Social Bonus

Law 24/2013, of 26 December 2013, required that the subsidised electricity tariff cost must be assumed, as a public service obligation, by parent companies or vertically-integrated groups of companies carrying out electricity generation, distribution and supply activities, to assume the cost of the subsidised electricity tariff in proportion to a percentage based on both their number of supply connections to distribution grids and the number of customers supplied, set for ENDESA at 41.10% in 2016 under Ministerial Order IET/1451/2016, of 8 September.

In 2017 and 2016, Euros 75 million and Euros 70 million were recognised in this connection, respectively.

Despite the foregoing, in the Ruling of 24 October 2016 the Contentious-Administrative Section of the Supreme Court declared the Social Bonus financing system established by article 45.4 of Law 24/2013 of 26 December to be inapplicable, since it was incompatible with Directive 2009/72/EC of the European Parliament and of the Council, of 13 July 2009, concerning common rules for the internal market in electricity, and acknowledged the right of companies to recover the amounts paid. The State authorities submitted an application for dismissal of the Supreme Court Ruling, which was overruled in a motion handed down on 14 December 2016, and on 2 February 2017 an appeal was submitted against this motion before the Constitutional Court.

On 3 October and 27 December 2017 Order ETU/929/2017, of 28 September and Order ETU/1288/2017, of 22 December, were published, implementing the different rulings handed down in this respect and the Spanish Markets and Competition Commission (CNMC) is ordered to pay the amounts corresponding to the Social Bonus for 2014, 2015 and 2016 (see Notes 11.3 and 16.5).

On 24 December 2016, Royal Decree-Law 7/2016 of 23 December was published to regulate the financing of the costs of the Social Bonus and other measures to protect vulnerable electricity consumers. According to this Royal Decree Law the social bonus will be financed by the parents of company groups that carry out energy supply activities, or by the companies themselves if they do not form part of a corporate group, in the percentage corresponding to their customer share. This percentage will be calculated annually by the Spanish Markets and Competition Commission (CNMC).

The sole transitional provision of the Royal Decree Law establishes the percentage distribution for the Social Bonus to be applied since it came into effect, with 37.7% corresponding to ENDESA for 2017.

In January 2018, the Spanish Markets and Competition Commission (CNMC) published the proposed percentage of financing for 2018, with 37.14% corresponding to ENDESA.

On 7 October 2017, Royal Decree 897/2017, of October 6, regulating the figure of the vulnerable consumer, the Social Bonus and other protection measures for domestic electricity energy consumers, as well as Order ETU/943/2017, of 6 October, implementing Royal Decree 897/2017 of 6 October.

Among other aspects, three categories of vulnerable customers have been identified based on the income level through the Spanish Income Public Indicator of Multiple Effects ("IPREM"), establishing different discount percentages according to each category. In particular, the three categories that are defined are:

- Vulnerable customers (25% discount).
- Severe vulnerable customers (40% discount).
- Severe vulnerable customers at risk of social exclusion (100% discount), the latter being those classified as severe vulnerable customers for which it can be demonstrated that social services are paying at least 50% of their invoice.

This Royal Decree also regulates other aspects relating to supply and, among others, raises from two to four months the term for cutting off of supply to vulnerable customers (severely vulnerable customers at risk of social exclusion cannot be cut off as power is considered to be a basic supply).

16.5. Other gains/losses.

In 2017, the Company recognised the amounts paid in relation to the Social Bonus for 2014, 2015 and 2016, recognising in the consolidated statement:

- Euros 222 million of profit or loss under "Other gains/losses" (see Notes 11.3 and 16.4).
- Euros 15 million under "Financial income", deriving from the financial impact of legal interest (see Notes 11.3 and 16.6).

16.6. Financial income and expenses

In 2017 and 2016, details of financial income and expenses in the accompanying statement of profit or loss for are as follows:

Millions of Euros

	Note	2017	2016
Finance Income		28	18
From marketable securities and other non-current credits		28	18
Interest on loans to Group companies and associates	18.1	6	1
Interest from loans to third parties		22	17
Loans and credits		3	14
Expected return on defined benefit	11.1	1	2
Workforce restructuring plans	11.2	3	-
Workforce reduction plans	11.2.1	1	-
Contracts suspensions	11.2.2	2	-
Other financial income	16.5	15	1
Finance Expenses		(145)	(178)
Interest on borrowings from Group companies and associates	18.1	(132)	(157)
Interest on debts to third parties		(9)	(7)
Provision adjustments		(4)	(14)
Non-current employee benefit obligations		(2)	(4)
Post-employment benefits	11.1	(2)	(3)
Other employee benefits		-	(1)
Workforce reduction plans	11.2.1	-	(2)
Contract suspensions	11.2.2	(2)	(8)

17. Guarantees to third parties, commitments and other contingent liabilities

17.1. Guarantees to third parties and other contingent liabilities.

At 31 December 2017 and 2016, the guarantees and other guarantees provided by ENDESA, S.A. Are the following (see Note 18.2):

- Guarantor for International ENDESA, B.V. for the financing obtained by that company and its financial derivatives. This financing was in turn extended to ENDESA, S.A. and another of its subsidiaries and totalled Euros 916 million and Euros 979 million at 31 December 2017 and 2016, respectively.
- Guarantees provided by ENDESA Generación, S.A.U. To third parties to cover the risk of long-term gas contracts for Euros 50 million at 31 December 2017 (Euros 57 million at 31 December 2016).
- ENDESA, S.A. is guarantor for 100% of the ENDESA Generación, S.A.U. tolling contract to acquire all the electricity generated by Elecgas, S.A. ENDESA, S.A. holds a 50% interest in this company through ENDESA Generación Portugal, S.A. The amount secured by ENDESA, S.A. was Euros 424 million at 31 December 2017 (Euros 440 million at 31 December 2016).
- ENDESA, S.A. has deposited guarantees for workforce restructuring plans of various Group companies for Euros 61 million at 31 December 2017 (Euros 114 million at 31 December 2016).
- On 18 April 2016, an agreement was signed for termination of the contract for the development of the Girabolhos hydroelectric plant project in Portugal between the Portuguese state and Hidromondego - Hidroeléctrica do Mondego, Lda, a wholly-owned subsidiary of ENDESA Generación, S.A.U., as a result ENDESA, S.A. has been released from part of the guarantees. Therefore, at 31 December 2017, the corresponding outstanding balance came to Euros 2 million (Euros 10 million at 31 December 2016).
- ENDESA, S.A. is also guarantor for several companies in the Group in relation to different commitments totalling Euros 1,365 million at 31 December 2017 and Euros 1,273 million at 31 December 2016, as shown below.

Millions of Euros

COMPANY	31 December 2017	31 December 2016
ENDESA Energía, S.A.U.	706	623
ENEL Green Power España, S.L.U. (EGPE)	206	55
ENDESA Generación, S.A.U.	149	249
ENDESA Energía XXI, S.L.U.	132	163
ENDESA Distribución Eléctrica, S.L.U.	86	89
Gas y Electricidad Generación, S.A.U.	33	33
Empresa Carbonífera del Sur, S.A.U.	19	24
Unión Eléctrica de Canarias Generación, S.A.U.	17	20
Other	17	17
TOTAL	1,365	1,273

ENDESA, S.A.'s management does not expect that its status as guarantor will result in significant liabilities for the Company.

17.2. Other commitments

ENDESA, S.A. has the commitment to provide ENDESA Financiación Filiales, S.A.U. with the financing required to enable this company to honour its commitments to finance Spanish ENDESA Group companies and their subsidiaries.

In 2014, ENDESA entered into two agreements with Corpus Christi Liquefaction, LLC to acquire liquefied natural gas (GNL) from 2019 for a total of 3 bcm/year. ENDESA, S.A. signed both agreements with ENEL Trade, S.p.A. And ENDESA Energía, S.A.U. under which it transferred to the latter gas of 1 bcm/year and 2 bcm/year, respectively, acquired in accordance with the contract under the same terms and conditions that were concluded with Corpus Christi Liquefaction, LLC. ENEL, S.p.A. granted a guarantee in favour of ENDESA, S.A. for US dollars 137 million (approximately Euros 114 million at 31 December 2017 and Euros 130 million at 31 December 2016) to comply with this contract (see Note 18.2).

18. Related-party transactions.

During 2017 and 2016, the joint directors, or persons acting on their behalf, have not carried out transactions with the Company (or its other subsidiaries) that do not correspond to the normal course of business or were not carried out in keeping with prevailing market conditions.

In 2017, the amount of transactions carried out with other related parties of certain members of the Board of Directors, does not exceed Euros 8 million combined (Euros 6 million in 2016). These transactions correspond to the Company's normal business activities and were in all cases carried out under normal market conditions.

Related-party transactions during 2017 and 2016 were in the normal course of business and conducted at arm's length.

18.1. Related-party transactions.

The following table details the transactions concluded with related parties in 2017 and 2016.

Millions of Euros							
2017							
	Note	Significant shareholders	Directors and executives	Group companies	Associates	Other related parties	Total
Purchase of intangible	5	-	-	26	-	-	26
Rendering of services	16.1	2	-	258	-	-	260
Other income		-	-	15	-	-	15
Services received	16.4 and 18	(5)	-	(35)	-	(8)	(48)
Dividends received	8.1.1 and 16.1	-	-	1,503	-	-	1,503
Finance income	16.6	-	-	6	-	-	6
Finance expenses	16.6	-	-	(132)	-	-	(132)
Leases	7.1 and 16.4	-	-	(9)	-	-	(9)
Dividends and other distributions	3	989	-	-	-	-	989
Exchange gains/(losses)		-	-	38	-	-	38
Change in fair value of financial instruments		-	-	44	-	-	44

Millions of Euros							
2016							
	Note	Significant shareholders	Directors and executives	Group companies	Associates	Other related parties	Total
Purchase of property, plant and equipment	5	24	-	-	-	-	24
Rendering of services	16.1	4	-	209	-	-	213
Other income		-	-	31	-	-	31
Services received	16.4 and 18	(25)	-	(14)	-	(6)	(45)
Dividends received	8.1.1 and 16.1	-	-	1,594	-	-	1,594
Impairment losses and investment income in Group companies and associates	8.1 and 16.2	-	-	-	94	-	94
Finance income	16.6	-	-	1	-	-	1
Finance expenses	16.6	-	-	(157)	-	-	(157)
Leases	7.1 and 16.4	-	-	(9)	-	-	(9)
Dividends and other distributions	3	761	-	-	-	-	761
Change in fair value of financial instruments		-	-	(27)	-	-	(27)

18.2. Balances with related parties.

At 31 December 2017 and 2016, balances with related parties recognised in the statement of financial position are as follows:

Millions of Euros							
31 December 2017							
	Note	Significant shareholders	Directors and executives	Group companies	Associates	Other related parties	Total
Non-current financial investments	8	-	-	14,803	-	-	14,803
Equity instruments		-	-	14,793	-	-	14,793
Derivatives	14	-	-	10	-	-	10
Trade and other receivables		2	-	33	-	-	35
Current financial investments	8	58	-	37	-	-	95
Loans to companies		58	-	4	-	-	62
Derivatives	14	-	-	33	-	-	33
Non-current debts	12	-	-	(4,212)	-	-	(4,212)
Non-current Debts to Group companies and associates		-	-	(4,211)	-	-	(4,211)
Derivatives	14	-	-	(1)	-	-	(1)
Current debts	12	(525)	-	(973)	(24)	-	(1,522)
Current Debts to Group companies and associates		(5)	-	(948)	(24)	-	(977)
Derivatives	14	-	-	(4)	-	-	(4)
Other financial liabilities		(520)	-	(21)	-	-	(541)
Trade and other payables		(4)	-	(89)	-	-	(93)
Guarantees received	17.2	114	-	-	-	-	114
Guarantees provided	17 and 18.3	-	7	2,818	-	-	2,825
Financing agreements	18.3	-	1	-	-	-	1
Millions of Euros							
31 December 2016							
	Note	Significant shareholders	Directors and executives (Note 18.3)	Group companies	Associates	Other related parties	Total
Non-current financial investments	8	-	-	14,793	-	-	14,793
Equity instruments		-	-	14,793	-	-	14,793
Trade and other receivables		2	-	30	-	-	32
Current financial investments	8	142	-	1	-	-	143
Loans to companies		142	-	-	-	-	142
Derivatives	14	-	-	1	-	-	1
Non-current debts	12	-	-	(4,450)	-	-	(4,450)
Non-current Debts to Group companies and associates		-	-	(4,443)	-	-	(4,443)
Derivatives	14	-	-	(7)	-	-	(7)
Current debts	12	(537)	-	(1,037)	(28)	-	(1,602)
Current Debts to Group companies and associates		(17)	-	(1,016)	(28)	-	(1,061)
Derivatives	14	-	-	(21)	-	-	(21)
Other financial liabilities		(520)	-	-	-	-	(520)
Trade and other payables		(7)	-	(17)	-	-	(24)
Guarantees received	17.2	130	-	-	-	-	130
Guarantees provided	17 and 18.3	-	7	2,873	-	-	2,880
Financing agreements	18.3	-	1	-	-	-	1

At 31 December 2017 and 2016 ENDESA has a committed and irrevocable intercompany credit line with ENEL Finance International, N.V. for the sum of Euros 1,000 million and an uncommitted credit line for Euros 1,500 million, against which no drawdowns had been made on these dates (see Note 12.2).

18.3. Information on the Board of Directors and senior executives.

18.3.1. Remuneration of directors.

Article 41 of the corporate bylaws states that *“the remuneration of Directors will comprise the following items: a fixed monthly salary and per diems for attendance at each meeting of the company’s management bodies and their committees.*

Maximum global and annual compensation, for the Board as a whole and including all aforementioned items, shall be established by the General Shareholders’ Meeting and will remain in effect until it resolves upon an amendment thereof.

The Board itself shall be in charge of determining the exact amount to be paid in each fiscal year, subject to the limits set forth by the General Shareholders’ Meeting, as well as distributing such amount between the aforementioned items and between the directors in the manner, time and proportion as freely determined, taking into account the functions and responsibilities entrusted to each Director, whether they belong to any of the Board’s Committees and all other relevant objective circumstances.

Without prejudice to the foregoing, article 30 of the Board of Directors’ Regulations states that directors, regardless of their type of directorship, can waive the right to receive remuneration based on a fixed monthly allocation and/or per diems to attend meetings of the Board of Directors, Executive Committee and/or Committees.

The amount of said per diem shall be, at the most, the amount which, in accordance with the above paragraphs, is determined to be the fixed monthly allocation. The Board of Directors may, within such limit, determine the amount of the allowances.

The remuneration contemplated in the preceding sections, deriving from membership on the Board of Directors, shall be compatible with other remuneration, indemnity payments, contributions to insurance schemes or any other professional or labour earnings pertaining to the Directors for any other executive or advisory duties which, as the case may be, they perform for the company other than those of collegiate supervision and decision-making characteristic of their status as Directors, which shall be subject to the appropriate applicable legal scheme.

Without prejudice to the above-mentioned remunerations, the Executive Directors remuneration may also consist of the transfer of Company shares, options over them or remuneration based on the value of the shares. The application of this remuneration model requires the agreement of the General Shareholders’ Meeting, expressing, where appropriate, the maximum number of shares to be assigned during each financial year as part of this remuneration system, the strike price and the system used to calculate the strike price of share options, the value of the shares taken as a reference, when appropriate, the term of the remuneration plan and any other conditions deemed appropriate.

Members of the Board of Directors of ENDESA, S.A. therefore received remuneration in their capacity as Directors of the Company.

- In 2017, the monthly fixed salary for each Director was Euros 15.6 million gross.
- In 2016, the monthly fixed salary for each Director was Euros 15.6 thousand, gross. However in 2016, the fixed monthly emolument of the posts of Chairman of the Audit and Compliance Committee (CAC) and of the Appointments and Remuneration Committee (CNR) was increased by Euros 1 thousand gross per month, and the remuneration of the Coordinating Director was increased by Euros 2.1 thousand gross per month.
- The per diems for attendance at meetings of the Board of Directors, Executive Committee, Appointments and Remuneration Committee and Audit and Compliance Committee (CAC) amounted to Euros 1.5 thousand gross each in 2017 and 2016.
- The members of the Board of Directors and executive directors receive remuneration for performing duties other than in their capacity as directors in accordance with the salary structure of senior management of ENDESA. The main components of this remuneration are:

- Fixed annual remuneration: cash remuneration paid monthly in accordance with the complexity and responsibility of the functions entrusted.
- Short-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with annual targets established through the Company's assessment systems.
- Long-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with multi-year targets.
- Social and other benefits: remuneration (normally non-cash) received in accordance with certain, special and specific requirements determined voluntarily, legally, contractually or through collective bargaining.

Fixed remuneration.

Details of the annual fixed remuneration received by the members of the Board of Directors, based on the post held, in 2017 and 2016 are as follows:

Thousands of Euros

	2017		2016	
	Salary	Fixed remuneration	Salary	Fixed remuneration
Borja Prado Eulate	1,132	188	1,132	188
Francesco Starace	-	-	-	-
José Bogas Gálvez	737	-	700	-
Alejandro Echevarría Busquet (1)	-	188	-	197
Livio Gallo (4)	-	-	-	-
Alberto de Paoli	-	-	-	-
Helena Helena Revoredo Delvecchio	-	188	-	188
Miquel Roca Junyent (2)	-	225	-	225
Enrico Viale	-	-	-	-
Ignacio Garralda Ruiz de Velasco (3)	-	200	-	191
Francisco de Lacerda	-	188	-	188
Helena María Patrizia Grieco (5)	-	128	-	-
TOTAL	1,869	1,305	1,832	1,177

(1) Chairman of the Appointments and Remuneration Committee until September 2016.

(2) Coordinating Director. Chairman of the Audit and Compliance Committee until September 2016. Chairman of the Appointments and Remuneration Committee from October 2016.

(3) Chairman of the Audit and Compliance Committee from October 2016.

(4) Stepped down in April 2017.

(5) Joined in April 2017.

Variable remuneration.

The variable remuneration accrued in 2017 and 2016 by the Chairman and CEO, for performing their executive tasks, are those itemised below:

Thousands of Euros

	2017		2016	
	Current	Non-current	Current	Non-current
Borja Prado Eulate	783	1,023	822	853
José Bogas Gálvez	497	846	522	705
TOTAL	1,280	1,869	1,344	1,558

Attendance fees

Per diems for attendance at each meeting of the Board of Directors and of its Committees in 2017 and 2016 are as follows:

Thousands of Euros

	2017		2016	
	ENDESA, S.A.	Other companies	ENDESA, S.A.	Other companies
Borja Prado Eulate	18	-	18	-
Francesco Starace	-	-	-	-
José Bogas Gálvez	-	-	-	-
Alejandro Echevarría Busquet (1)	37	-	47	-
Livio Gallo (2)	-	-	-	-
Alberto de Paoli	-	-	-	-
Helena Helena Revoredo Delvecchio	37	-	42	-
Miquel Roca Junyent (3)	45	-	51	-
Enrico Viale	-	-	-	-
Ignacio Garralda Ruiz de Velasco (4)	46	-	51	-
Francisco de Lacerda	46	-	51	-
Helena Maria Patrizia Grieco (5)	13	-	-	-
TOTAL	242	-	260	-

(1) Chairman of the Appointments and Remuneration Committee until September 2016.

(2) Stepped down in April 2017

(3) Coordinating Director. Chairman of the Audit and Compliance Committee until September 2016. Chairman of the Appointments and Remuneration Committee from October 2016.

(4) Chairman of the Audit and Compliance Committee from October 2016.

(5) Joined in April 2017.

Other components

The Executive Directors, as well as the remaining senior executives, receive remuneration in kind, including a group healthcare policy subsidising 100% of the cost of the payment of the holder and dependent family members, the assignment of a company vehicle under a renting system, together with the benefit of electricity supplied at an employee rate.

In 2017, this totalled Euros 86 thousand (Euros 89 thousand in 2016).

Advances and loans.

At 31 December 2017 and 2016, loans for the amount of Euros 396 thousand had been extended to Executive Directors, of which Euros 230 thousand correspond to loans bearing an average interest rate of 0,402% and Euros 166 thousand to interest-free loans (interest subsidies are treated as remuneration in cash).

Repayment of the principal will be made over the working life of the employee, with full cancellation when they leave the company.

Pension funds and schemes: contributions

During 2017, the contribution to funds and pension plans of Executive Directors totalled Euros 600 thousand (Euros 592 thousand in 2016).

Pension funds and schemes: obligations assumed

At 31 December 2017, Executive Directors hold accumulated fund and pension plan rights for the amount of Euros 12,815 thousand (Euros 11,741 thousand in 2016).

Life and accident insurance premiums.

Through the Company, Executive Directors have life and accident insurance policy that guarantees certain capital and/or income according to the contingency in question (cover for disability and death). In 2017, the premium totalled Euros 249 thousand (Euros 255 thousand in 2016).

Guarantees provided by the Company to Executive Directors.

At 31 December 2017, as regards remuneration, the Company had guarantees on behalf of the Chief Executive Officer amounting to Euros 6,890 thousand to cover early retirement entitlements (Euros 6,987 thousand at 31 December 2016).

18.3.2. Remuneration of senior management.

Identification of members of senior management at ENDESA, S.A. who are not Executive Directors.

Name	Senior executives in 2017
	Position ⁽¹⁾
Alberto Fernández Torres	General Manager - Communication
Álvaro Luis Quirarte Abelló	General Manager - Energy Management
Andrea Lo Faso	General Manager - Human Resources and Organisation
Francisco de Borja Acha Besga	General Secretary and Secretary of the Board of Directors and General Manager - Legal and Corporate Affairs
José Casas Marín	General Manager - Institutional Relations and Regulation
José Luis Puche Castillejo	General Manager - Media
Juan M ^a Moreno Mellado	General Manager - Nuclear Power
Luca Minzolini	General Manager - Audit
María Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi	General Manager - Administration, Finance and Control

(1) List of persons included in this table as per the definition of senior executive in CNMV Circular 5/2013, of 12 June.

Name	Senior executives in 2016
	Position ⁽¹⁾
Alberto Fernández Torres	General Manager - Communication
Álvaro Luis Quirarte Abelló	General Manager - Energy Management
Andrea Lo Faso	General Manager - Human Resources and Organisation
Enrique Durand Baquerizo ⁽⁴⁾	General Manager - Audit
Francisco de Borja Acha Besga	General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs
José Casas Marín	General Manager - Institutional Relations and Regulation
José Luis Puche Castillejo	General Manager - Media
José M ^a Grávalos Lasuen ⁽²⁾	General Manager - Nuclear Power
Juan M ^a Moreno Mellado ⁽³⁾	General Manager - Nuclear Power
Luca Minzolini ⁽⁵⁾	General Manager - Audit
Manuel Fernando Marín Guzmán	General Manager - ICT
Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi	General Manager - Administration, Finance and Control

(1) List of persons included in this table as per the definition of senior executive in CNMV Circular 5/2013, of 12 June.

(2) Left the on 2 January 2016.

(3) Joined on 1 January 2016.

(4) Left on 1 May 2016.

(5) Joined on 1 May 2016.

Remuneration of senior management.

Details of the remuneration in 2017 and 2016 of senior management members who are not, in turn, Executive Directors has been as follows:

Thousands of Euros			
	2017	2016	
Fixed remuneration	3,831	3,954	
Variable remuneration	4,370	4,777	
Other	374	1,240	
TOTAL	8,575	9,971	

Thousands of Euros			
	2017	2016	
Advances	391	251	
Pension Funds and Schemes: contributions	749	772	
Pension Funds and Schemes: obligations assumed	11,973	11,201	
Life and accident insurance premiums	191	167	

Guarantees provided by the Company to senior management personnel.

At 31 December 2017 and 2016, in terms of remuneration, the Company had not issued any guarantees to senior management members, who are not, in turn, Executive Directors.

18.3.3. Guarantee clauses: Board of Directors and senior management personnel.

Guarantee clauses for dismissal or changes of control.

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee (CNR) and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management personnel, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

The regime for these clauses is as follows:

- Termination of the employment relationship:
 - By mutual agreement: termination benefit equal to an amount from 1 to 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the Executive Director contracts.
 - At the unilateral decision of the executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other causes for compensation for termination foreseen in Royal Decree 1382/1985 of 1 August 1985.
 - As a result of termination by the Company: termination benefit equal to that described in the first point.
 - At the decision of the Company based on the serious wilful misconduct or negligence of the executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

- Post-contractual non-competition clause: in the vast majority of contracts, senior executives are required not to engage in a business activity in competition with ENDESA for a period of 2 years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

At 31 December 2017 and 2016, ENDESA had 11 executive directors and senior managers with guarantee clauses in their employment contracts.

18.3.4. Other disclosures concerning the Board of Directors.

To increase the transparency of listed companies, the members of the Board of Directors have disclosed, to the best of their knowledge, the direct or indirect stakes they and their related parties hold in companies with the same, analogous or similar corporate purpose as that of ENDESA, S.A., and the positions or duties they perform therein.

At 31 December 2017				
Director	Personal or company tax ID	Company	% ownership	Position
Borja Prado Eulate	B85721025	ENEL Iberia, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00117658	Chief Executive Officer and General Manager
Francesco Starace	B85721025	ENEL Iberia, S.L.U.	-	Chairman
José Bogas Gálvez	B85721025	ENEL Iberia, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogás, S.A.	-	Chairman
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Maria M ^a Patrizia Grieco	00811720580	ENEL, S.p.A.	-	Chairwoman
Enrico Viale	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	00811720580	ENEL, S.p.A.	0,00007769	Head of Global Thermal Generation, ENEL
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Ignacio Garraalda	00811720580	ENEL, S.p.A.	0,00027540	-

At 31 December 2016				
Director	Personal or company tax ID	Company	% ownership	Position
Borja Prado Eulate	B85721025	ENEL Iberia, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00117658	Chief Executive Officer and General Manager
Francesco Starace	B85721025	ENEL Iberia, S.L.U.	-	Chairman
José Bogas Gálvez	B85721025	ENEL Iberia, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogás, S.A.	-	Chairman
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Alberto de Paoli	06377691008	ENEL Italia, S.R.L.	-	Director
Livio Gallo	00811720580	ENEL, S.p.A.	0,00017015	Head of Infrastructure and Global Networks
Livio Gallo	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	00811720580	ENEL, S.p.A.	0,00007769	Head of Global Thermal Generation, ENEL
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Ignacio Garraalda	00811720580	ENEL, S.p.A.	0,00027540	-

In accordance with Article 229 of the Corporate Enterprises Act, conflicts of interest involving members of the Board of Directors shall be reported on in the Financial Statements, in this connection:

- The Executive Directors, in their capacity as Directors of ENEL Iberia S.L.U., appointed by Enel, S.p.A., had conflicts of interest when authorising transactions with Enel, S.p.A. or Enel Group companies. In all the situations arising in 2017, the Executive Directors did not participate in the related items on the agenda of the Board of Directors meeting.
- The Proprietary Directors, appointed by ENEL, S.p.A., had a conflict of interest when authorising transactions with ENEL, S.p.A. or ENEL Group companies. In all the situations arising in 2017, the Proprietary directors did not participate in the related items on the agenda of the Board of Directors meeting.
- María Helena Revoredo Delvecchio is Chairwoman of Prosegur Compañía de Seguridad, S.A. and performs her functions as an independent director of ENDESA S.A. without prejudice to the possible commercial relationship between the Prosegur and Endesa Groups. In 2017 the Prosegur Group arranged a security and surveillance service provision agreement with ENDESA for the latter's non-material facilities in Spain. The services were awarded by ENDESA S.A.'s Board of Directors, based on the results of the corresponding tender processes, without the involvement of the Director, Helena Revoredo Delvecchio, pursuant to the legislation applicable to conflicts of interests.

Distribution by gender: At 31 December 2017, the Board of Directors of ENDESA, S.A. was composed of 11 directors, 2 of which are women. At 31 December 2016, there were 11 Directors, 1 of which was a woman.

In 2017 and 2016 there were no damages caused by acts or omissions of the Directors that would have required use to be made of the third-party liability insurance premium held through the Company. This policy insures both the Company's directors and employees with management responsibilities.

In 2017, this premium totalled Euros 80 thousand (Euros 42 thousand in 2016).

18.3.5. Share-based payment schemes tied to ENDESA, S.A. share price

ENDESA's variable long-term remuneration is articulated through the so-called Loyalty Plan, whose main purpose is to strengthen the commitment of employees, who occupy positions of greater responsibility in achieving the Group's strategic objectives. The Plan is structured through successive triennial programs, which start every year from 1 January 2010. Since 2014, the plans have foreseen a deferral of the payment and the need for the Executive to be active on the date of liquidation thereof; and payments are made on 2 dates: in the year following the end of the Plan, 30% of the incentive will be paid, and the remaining 70%, if applicable, 2 years after the end of the Plan.

Within the framework of the ENDESA Loyalty Plan, the Company's General Shareholders' Meeting, held on 26 April 2016, approved certain long-term remuneration schemes for 2015-2017 and 2016-2018. Further, the Company's General Shareholders' Meeting, held on 26 April 2017, approved long-term remuneration schemes for 2017-2019.

These three plans are linked, among other indicators, to share price performance and are directed at the Chairman, the CEO and ENDESA Executives with strategic responsibility.

Specifically, the plan referred to above have the following objectives:

- a) The "Total Shareholders' Return (TSR) of ENDESA" objective, defined as the average value of the TSR of ENDESA as compared with the average value of the TSR of the Euro-Stoxx Utilities Index, selected as the comparable group for the accrual period.

This indicator measures the total return of a share as the sum of its parts:

- i. Capital gains: the relation between the change in the share price (the difference between the price recorded at the end and at the beginning of the reference period) and the value established at the start of the period;
 - ii. Reinvested dividends: the relationship between the dividends per share distributed in the reference period and the share price at the start of the period.
- b) The "Return on Average Capital Employed" (ROACE) objective, defined as ENDESA's accumulated ROACE in the accrual period, represented by the relationship between EBIT and average net capital invested accumulated during the period.

There is an ex-post control over long-term variable remuneration in the form of a malus clause that permits the company not to pay variable remuneration accrued and not received, in addition to a clawback clause which obliges holders of these plans to repay the variable remuneration received in the event that data used for its calculation or payment are proved to be clearly erroneous after the settlement date.

The Appointments and Remuneration Committee (CNR) may submit a motion to the Board of Directors not to pay or claim a refund of variable components of remuneration when payment was based on data which later proved to be incorrect.

The amount accrued in relation to these loyalty plans in 2017 for all Directors totalled Euros 5 million (Euros 8 million in 2016).

19. Other information

19.1. Personnel

The Company's average headcount in 2017 and 2016, detailed by category and gender, was as follows:

Number of employees						
	2017		Total	2016		Total
	Men	Women		Men	Women	
Executives	109	26	135	110	27	137
Graduates	443	423	866	429	399	828
Middle management and manual workers	138	266	404	152	277	429
TOTAL EMPLOYEES	690	715	1,405	691	703	1,394

At 31 December 2017 and 2016, the breakdown of the headcount by category and gender is as follows:

Number of employees						
	31 December 2017		Total	31 December 2016		Total
	Men	Women		Men	Women	
Executives	103	25	128	110	27	137
Graduates	439	421	860	429	412	841
Middle management and manual workers	123	249	372	140	273	413
TOTAL EMPLOYEES	665	695	1,360	679	712	1,391

The average persons employed in 2017 and 2016 with an incapacity greater than or equal to 33%, per category, is the following:

Number of employees						
	2017		Total	2016		Total
	Men	Women		Men	Women	
Graduates	4	3	7	6	5	11
Middle management and manual workers	5	5	10	7	6	13
TOTAL EMPLOYEES	9	8	17	13	11	24

19.2. Audit fees

Details of fees for the services provided in 2017 and 2016 by the auditors of the annual accounts of the Company and consolidated accounts of ENDESA, S.A. and its subsidiaries are as follows:

Thousands of Euros			
	2017	2016	
	Ernst & Young, S.L.	Ernst & Young, S.L.	
Audit of the financial statements	1,497		983
Audits other than of the financial statements and other audit-related services	1,031		669
Other non-audit services	-		182
TOTAL	2,528		1,834

The figures reported in the table above include all of the fees accrued for the services rendered during the years ended 2017 and 2016, irrespective of when they were actually invoiced.

19.3. Information on the Average Payment Period to Suppliers. Third additional provision. "Duty of disclosure" under Law 15/2010 of 5 July

Pursuant to Law 15, 2010, of 5 July, details of the degree of compliance by ENDESA's Spanish companies with the statutory limits on payment to suppliers in 2017 and 2016 are as follows:

Number of days			
	2017	2016	
Average payment period for suppliers	51	44	
Ratio of transactions paid	54	44	
Ratio of transactions pending payment	32	37	
Thousands of Euros			
	2017	2016	
Total payments made	107,193	186,560	
Total payments pending	14,913	16,237	

19.4. Insurance.

The Company has taken out insurance policies to cover the risk of damage to property, plant and equipment of the parent company and the subsidiaries in which it has a shareholding of 50% or more or has effective control. The limits and coverage are appropriate to the types of risk and country of operation.

The possible loss of profits that could result from outages at the plants is also covered by certain assets.

Possible claims against the Company due to the nature of its activity are also covered.

20. Environmental information.

Operating costs in 2017 associated with environmental activities amounted to Euros 7 million in 2017 (Euros 4 million in 2016), mostly to minimise environmental impact.

At 31 December 2017 and 2016, the Company did not have any environment assets and it did not acquire any environmental assets or receive any grants for that purpose during 2017 and 2016.

At the date of issue of these consolidated financial statements, The Company's directors consider that there are no known or probable environmental expenses for which provisions should be made.

21. Events after the reporting period.

No other significant events took place between 31 December 2017 and the date of authorisation for issue of the accompanying financial statements.

22. Explanation added for translation to English.

These Financial Statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company that conform to generally accepted accounting principles in Spain may not conform to other generally accepted accounting principles in other countries. Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

The Annual Financial Statements (Balance Sheet; Income Statement; Statement of Changes in Net Equity; Statement of Recognized Income and Expenses, Comprehensive Statement of Changes in Net Equity; Cash-Flow Statement; and Annual Report) **of ENDESA, Sociedad Anónima for fiscal year ending December 31, 2017, as provided herein, were drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on February 26, 2018 and are hereinbelow signed by all of its Directors in compliance with Article 253 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*).**

Borja Prado Eulate Chairman	Francesco Starace Vice Chairman
José Damián Bogas Gálvez Chief Executive Officer	Alejandro Echevarría Busquet Director
Ignacio Garralda Ruiz de Velasco Director	Maria Patrizia Grieco Director
Francisco de Lacerda Director	Alberto de Paoli Director
Helena Revoredo Delvecchio Director	Miguel Roca Junyent Director
Enrico Viale Director	

Madrid, February 26, 2018

ENDESA, S.A.

**Management Report for the Year Ended
31 December 2017**

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A.

MANAGEMENT REPORT FOR

THE YEAR ENDED 31 DECEMBER 2017

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(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A.

MANAGEMENT REPORT FOR THE

THE YEAR ENDED

31 DECEMBER 2017

1. Business performance.

ENDESA, S.A., the Company, is a holding company and its income essentially depends on the dividends from its subsidiaries and its expenses from the cost of its debt. Provisions for investments can also be made or reversed based on changes in the value of its subsidiaries.

The net turnover in 2017 amounted to Euros 1,763 million, of which Euros 1,503 million correspond to income from dividends from Group companies and associates, and Euros 260 million to income for the provision of services to independent companies.

The details of the ENDESA's income from dividends in 2017 are as follows:

Millions of Euros	
Company	Dividend
ENDESA Generación, S.A.U.	888
ENDESA Red, S.A.U.	443
ENDESA Financiación Filiales, S.A.U.	172
TOTAL	1,503

In 2017, operating income amounted to Euros 2,003 million, while operating expenses totalled Euros 400 million, generating EBIT for the year of Euros 1,603 million.

In 2017, as a result of different judgments in relation to the Social Bonus, the Company has recognised the amounts paid for this issue in 2014, 2015 and 2016 as income, recognising Euros 222 million under operating income (see Notes 11.3, 16.4 and 16.5 to the Financial Statements for the year ended 31 December 2017).

A financial loss amounting to Euros 116 million was reported for 2017, primarily as a consequence of the financial expenses on loans from Group companies and associates amounting to Euros 132 million.

The pre-tax profit for the period was Euros 1,487 million.

In 2017, Euros 4 million of income was recognised from accrued income tax. This is because the dividends received from Group companies, which are the Company's main source of income, are not taxed. These companies' profits have already been taxed in the consolidated income tax return filed for the Group, represented in Spain by ENEL Iberia, S.L.U.

The net income for 2017 amounted to Euros 1,491 million.

2. Main financial transactions.

The main financial transactions undertaken during the year 2017 are:

- Within the framework of the financial transaction (ENDESA Grid Modernisation) concluded with the European Investment Bank (EIB) in 2014, Sections B and C (each one of Euros 150 million) were available on 18 January 2017 and 20 February 2017, thus completing the provision of the transaction for a total amount of Euros 600 million. Both provisions are variable, with a 12-year maturity depreciable as of 2021.

- In 2017, ENDESA, S.A. concluded agreements with different financial institutions for the extension to three years with a possibility of extending to five years of most of its credit lines for Euros 1,985 million.
- On 30 June 2017 ENDESA, S.A. successfully renegotiated the conditions of the irrevocable and committed inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000 million, extending its maturity to 30 June 2020 and reducing the margin and fee, applicable if the facility is not used, to 55 b.p. and 18 b.p., respectively. At 31 December 2017 and 2016, this uncommitted line of credit had not been drawn down.
- On 21 December 2017, ENDESA, S.A. subscribed to financing, yet to be paid at the date of preparation of this Management Report), with the European Investment Bank (BEI) for the amount of Euros 500 million, maturing in 12 years and offering a three-year grace period.
- On 28 December 2017, ENDESA S.A. renewed the uncommitted inter-company credit facility arranged with ENEL Finance International N.V., for Euros 1,500 million, extending the maturity to 28 December 2018, with the rest of the terms unchanged. At 31 December 2017, this uncommitted line of credit had not been drawn down.

3. Events after the reporting period.

No other significant events took place between 31 December 2017 and the date of authorisation for issue of this management report.

4. Outlook.

ENDESA, S.A.'s future profits will essentially depend on the dividends from its subsidiaries, which are determined by the profits made by those companies.

The Company's directors believe that ENDESA S.A. will receive sufficient dividends from its subsidiaries to meet its operating and financial costs.

The Board of Directors of ENDESA, S.A. operates an economic-financial strategy to generate a significant amount of cash to maintain Company debt levels and maximise shareholder remuneration. This is also a guarantee of sustainability for the business project undertaken.

As a result of this economic-financial strategy, unless any exceptional circumstances arise, which will be duly announced, at a meeting on 21 November 2017 the Board of Directors of ENDESA, S.A. approved the shareholder remuneration policy for 2017-2020.

That policy contemplates that the ordinary dividend per share distributed against these years will be the equivalent to 100% of ordinary net profit attributable to the Parent company set down in the Consolidated Financial Statements of the Group headed by this company, with a minimum of Euros 1.32 per share, gross, in 2017 and Euros 1.33 per share, gross in 2018.

The intention of the Board of Directors of ENDESA, S.A. is that the ordinary dividend will be paid solely in cash in two instalments (January and July) on a given date to be determined in each case, which will be duly notified.

However, ENDESA, S.A.'s capacity to pay out dividends to its shareholders depends on numerous factors, including the generation of profit and the availability of unrestricted reserves, and, therefore, the Company cannot ensure that dividends will be paid out in future years or the amount of such dividends if paid.

In respect of 2017, at a meeting on 21 November 2017 ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2017 income of Euro 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2018.

The proposed distribution of profit in 2017 to be presented at the General Shareholders' Meeting by ENDESA's Board of Directors will be the distribution to its shareholders of a total gross dividend of Euros 1,382 per share. Taking into account the interim dividend referred to in the preceding paragraph, the complementary dividend in respect of 2017 will be a gross amount of Euro 0,682 per share.

5. Risk management policy and the principal risks associated with ENDESA's business

Information on the risk management and control policy is provided in Note 13 to ENDESA, S.A.'s financial statements for the year ended 31 December 2017.

5.1. Risk control and management policy

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors of ENDESA, S.A. to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

The Risk Management and Control Policy defines ENDESA's risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and appropriate use of capital.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A. It consists of the parties responsible for each of the Company's business lines and corporate areas, and the following functions are assigned to it:

- Regularly provide the ENDESA, S.A. Board of Directors with an integrated view of current and foreseeable risk exposure.
- Ensure that senior management participates in strategic risk management and control decisions.
- Guarantee the coordination between the risk management units and those units responsible for their control, and compliance with the Risk Management and Control Policy and its associated internal procedures.
- Ensure the correct working of the risk control and management systems and, in particular, that they identify, manage, and adequately quantify all major risks.
- Actively participate in drawing up the risk strategy and in important decisions regarding its management.
- Ensure that the risk control and management systems appropriately mitigate risk as part of the risk control and management policy.

The general guidelines for the Risk Management and Control Policy are developed and supplemented by other corporate and specific risk policies for each business line, as well as the limits established for optimum risk management.

The risk management and control model is based partly on the ongoing study of the risk profile, current best practices in the electricity sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising their risk-return ratio, as determined by the Board of ENDESA, S.A.

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred and its aim is to adequately control and manage those risks:

- **Identification:** the purpose of identifying risks is to maintain a prioritised and updated repository of all the risks assumed through coordinated and efficient participation at all levels of the Company.
- **Measurement:** The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- **Control:** the purpose of risk control is to guarantee that the risks assumed by ENDESA are appropriate to the objectives set, ultimately, by the ENDESA, S.A. Board of Directors.
- **Management:** the purpose of risk management is to implement actions aimed at adjusting risk levels at each level of ENDESA to the risk tolerance and predisposition established.

This process sets out to secure an overview of risk to assess and prioritise all risks. It covers the main financial and non-financial risks to which ENDESA is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks, characterised and quantified, and establishing regular reviews.

Moreover, due to the increased interest in the control and management of the risk that companies are exposed to and given the complexity that identifying it from a comprehensive point of view is acquiring, the participation of employees is important at all levels of this process. A risk mailbox has now been created for employees to help identify market risks and come up with suggestions for measures to mitigate them, thereby completing the existing top-down risk management and control systems and mailboxes and specific procedures to send in communications in connection with breaches of ethical behaviour, criminal risks and employment risks.

To boost these initiatives, the ENDESA, S.A. Board of Directors also improved a Tax Risk Management and Control Policy to guide and direct strategic, organisational and operating activities to enable the acceptable tax risk level to be precisely defined, to help tax managers meet the policy's fiscal objectives.

The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A., and is available on its website at www.endesa.com.

Information regarding ENDESA's risk management and the use of derivative financial instruments is provided in Notes 13.1 and 14 to the financial statements for the year ended 31 December 2017.

5.2. Main risks and uncertainties.

As the Parent of a group of companies, ENDESA, S.A. is exposed to the same risks as the Endesa Group as any risk occurring at a subsidiary will affect the value of ENDESA, S.A.'s portfolio of investments and associated dividend payments.

The activities of ENDESA, S.A.'s subsidiaries (or ENDESA in this section) are carried out against a backdrop where outside factors may affect its operations and financial results.

The main risks that may affect ENDESA's operations are as follows:

5.2.1. Business and sector-related risk factors.

ENDESA's activities are subject to extensive regulation, and regulatory changes could have an adverse impact on its business activities, results, financial position and cash flows

ENDESA's subsidiaries are subject to broad regulations on tariffs and on other aspects of their activities in Spain and Portugal, regulations which, in many ways, determine the manner in which ENDESA carries out its business and the revenues it receives from its products and services.

ENDESA is subject to a complex group of laws and other regulations applied by both public and private agencies, which include the Spanish Markets and Competition Commission (CNMC). The introduction of new

legislation or standards, or the amendment of those already in effect could have a negative impact on ENDESA's business, results, financial situation and cash flows.

In the past, regulatory changes and the different interpretations thereof by the related authorities have had a substantially adverse effect on ENDESA's business activities, results, financial position and cash flows and the same could occur in the future. Furthermore, they could demand ENDESA make significant investments in order to comply with the new legal requirements. ENDESA cannot predict the effects the new regulatory measures will have on its results, its financial position or its cash flows and, therefore, these circumstances could adversely affect ENDESA's business activities, results, financial position and cash flows.

In addition, the European Union has established an operating framework for the various Member States which include, inter alia, objectives related to emissions, efficiency and renewable energies.

The introduction of new requirements, or amendments to existing ones, could adversely affect ENDESA's business activities, results, financial positions and cash flows if it cannot adapt and manage correctly the environment arising from them.

ENDESA's activities are subject to wide-reaching environmental regulations and its inability to comply with current environmental regulations or requirements or any changes to the environmental regulations or requirements applicable could adversely affect its business activities, results, financial position and cash flows

ENDESA is subject to environmental regulations which affect both the normal course of its operations, as well as the development of its projects, leading to increased risks and costs. This regulatory framework requires licences, permits and other administrative authorisations be obtained in advance, as well as fulfilment of all the requirements provided for in such licences, permits and authorisations. As in any regulated company, ENDESA cannot guarantee that:

- The laws or regulation will not be amended or interpreted in such a way as to increase the expenses necessary to comply with such laws or as to affect ENDESA's operations, facilities or plants;
- Public opposition will not lead to delays or changes in the projects that are proposed; and
- The authorities will grant the environmental permits, licences and authorisations required to develop new projects.

In addition, ENDESA is exposed to environmental risks inherent to its business, including those risks relating to the management of the waste, spills and emissions of the electricity production facilities, particularly nuclear power plants. ENDESA may be held responsible for environmental damages, for harm to employees or third parties, or for other types of damages associated with its energy generation, supply and distribution facilities, as well as port terminal activities.

Although the plants are prepared to comply with the prevailing environmental requirements, ENDESA cannot guarantee that it will be able to comply with the requirements imposed or that it will be able to avoid fines, administrative or other sanctions, or any other penalties and expenses related to compliance matters, including those related to the management of waste, spills and emissions from the electricity production units. Failure to comply with this regulation may give rise to liabilities, as well as fines, damages, sanctions and expenses, including, where applicable, facility closures. Government authorities may also impose charges or taxes on the parties responsible in order to guarantee obligations are repaid. In the event ENDESA were accused of failing to comply with environmental regulations, its business activities, results, financial position and cash flows could be affected adversely.

In this connection, ENDESA has taken out the following insurance policies:

- An environmental liability insurance policy which covers, up to a maximum of Euros 100 million, claims arising from contamination.
- A third-party liability insurance policy which covers claims relating to damage to third parties or their property up to a maximum of Euros 200 million and an additional Euros 800 million for hydroelectric plants.

- In relation to risks arising from operating nuclear power plants, the storage and handling of low-level radioactive materials and the eventual dismantling of its nuclear power plants, an insurance policy up to Euros 700 million to cover any liabilities related to nuclear power plants up to the liability limit established by Spanish legislation.

The nuclear power plants are also insured against damage to their installations (including stocks of fuel) and machinery breakdowns, with maximum coverage of USD 1,500 million (approximately Euros 1,250 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May, on civil liability for nuclear damages or damages produced by radioactive materials, which raises operator liability to Euros 1,200 million and allows coverage of this liability to be ensured in several ways. The entry into force of this regulation is in turn subject to entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention) which, at the date on which this management report was drawn up, was pending ratification by some European Union member state.

However, it is possible ENDESA may face third-party damage claims. If ENDESA were to be held liable for damages generated by its facilities for amounts greater than its insurance policy cover or for damages which exceed the scope of the insurance policy's cover, its business activities, financial position or operating results could be adversely affected.

ENDESA is subject to compliance with the legislation and regulations on emissions of pollutants and on the storage and treatments of waste from fuel from nuclear power plants. It is possible that the Company will be subject to even stricter environmental regulations in the future. In the past, the approval of new regulations has required, and could require in the future, significant capital investment expenditures in order to comply with legal requirements. ENDESA cannot predict the increase in capital investments or the increase in operating costs or other expenses it may have to incur in order to comply with all environmental requirements and regulations. Nor can it predict if the aforementioned costs may be transferred to third parties. Thus, the costs associated with compliance with the regulations applicable could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information concerning the environmental management systems of ENDESA S.A. may be found in Section 9. Environmental Protection in this Management Report.

Past or future infringements of competition and antitrust laws could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is subject to competition and antitrust laws in the markets in which it operates. Infringements of the aforementioned laws and other applicable regulations, especially in Spain, ENDESA's main market, could give rise to legal actions against ENDESA.

ENDESA has been, is and could be the object of legal investigations and proceedings regarding competition matters. Investigations regarding the infringement of competition and antitrust laws usually last several years and may be subject to rules which prevent the disclosure of information. Furthermore, infringements of these regulations may give rise to fines and other types of sanctions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA's growth strategy has traditionally included, and continues to include, purchase transactions which are subject to various competition laws. These regulations may affect ENDESA's ability to carry out strategic transactions.

ENDESA's business is largely dependent on the constant supply of large amounts of fuel to generate electricity; on the supply of electricity and natural gas used for its own consumption and supply; and on the supply of other commodities, the prices of which are subject to market forces which may affect the price and the amount of energy sold by ENDESA

ENDESA is exposed to market price and availability risks in relation to the purchase of the fuel (including gas and coal) used to generate electricity, for procuring gas and supply activities.

In this connection, fuel price fluctuations in international markets may affect the contribution margin. The prices of the offers of the various technologies are therefore established through the internationalisation, among others, of fuel and CO₂). Therefore, in the event of fluctuation in fuel prices and carbon dioxide (CO₂), generation technologies will attempt to reflect such fluctuations in their wholesale market prices. At the same time, the order of economic merit of each generation technology when establishing the market price, will depend on its relative costs, which include those of fuel and CO₂ emission rights, among others.

Similarly, the price of oil influences the price of electricity through the natural gas supply contracts, the majority of which are indexed to oil.

The Company is also exposed to the prices of CO₂ emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs), which, in turn, influences the cost of production at coal-fired and combined-cycle plants.

ENDESA has signed certain natural gas supply contracts which include binding "take or pay" clauses which compel it to either acquire the fuel it has agreed to contractually or to pay if it does not acquire such fuel. The terms of these contracts have been established based on certain assumptions regarding future electricity and gas demand. Any deviation from the assumptions used could give rise to an obligation to purchase more fuel than necessary or to sell excess fuel on the market at current prices. Over the last 3 years, ENDESA has managed its supply and demand, considerably expanding its international customer base in order to ensure its purchase commitments are balanced against the volume of its own consumption and customer sales. Furthermore, ENDESA has entered into electricity and natural gas contracts based on certain assumptions regarding future market prices for electricity and natural gas. ENDESA sells more electricity than it generates and, therefore, it is obliged to acquire electricity on the spot market in order to meet its supply obligations.

Any deviation when the aforementioned supply contracts are signed could give rise to an obligation to purchase electricity or natural gas at prices which are higher than those included in the contracts. In the event there is a market price adjustment with respect to the estimates made, a deviation in ENDESA's obligations with regard to its fuel needs, or a regulatory change which affects prices as a whole and how they have been established, and if its risk management strategies are inadequate in the face of such changes, ENDESA's business activities, results, financial position and cash flows could be affected adversely.

ENDESA's business could be adversely affected in the event it is unable to sustain its relationships with suppliers, customers and consumer and user rights organisations, or if the entities with which ENDESA maintains these relationships cease to exist

The relationships ENDESA currently maintains with the main industry service suppliers and providers are essential for the development and growth of its business, and will continue to be so in the future. Furthermore, certain of these relationships are and will continue to be managed by ENEL, S.p.A.

ENDESA's dependence on these relationships could affect its ability to negotiate contracts with these parties under favourable conditions. Although ENDESA's supplier portfolio is sufficiently diverse and it does not have a concentration of suppliers, if any of these relationships is severed or terminated, ENDESA cannot guarantee the replacement of any significant service supplier or provider within an appropriate time frame. If ENDESA is unable to negotiate contracts with its suppliers under favourable terms, if such suppliers are unable to comply with their obligations or if their relationship with ENDESA is severed, and ENDESA is unable to find an appropriate replacement, its business activities, results, financial position and cash flows could be affected adversely.

In the electricity supply business, ENDESA maintains relationships with a large number of customers. Even if ENDESA were to lose individual customers it would not have a significant impact on its business as a whole, the inability to maintain stable relationships with key customers could adversely affect ENDESA's business activities, results, financial position and cash flows.

Furthermore, ENDESA cannot guarantee that it will maintain solid relationships and ongoing communication with consumers and users and with the associations which represent them and, therefore, any change in these relationships could entail negative publicity and a significant loss of customers, which could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA's activities could be affected by rainfall patterns and climate and weather conditions.

ENDESA depends on the levels of precipitation in the geographical areas where its hydroelectric generation facilities are located. A year with low rainfall leads to a decline in hydroelectric output, in turn increasing the output of thermal power plants (with a greater cost) and, therefore, an increase in the price of electricity and costs of buying energy. In a wet year, the opposite effects occur.

Therefore, if there are droughts or other circumstances which adversely affect hydroelectric generation, ENDESA's business activities, results, financial position and cash flows could be adversely affected. Likewise, the Company actively manages its production mix when faced with changes in hydrological conditions. For example, in the event hydrological conditions are unfavourable, electricity generation will, to a large extent, come from other types of facilities and ENDESA's operating expenses arising from these activities will increase. ENDESA's inability to manage changes in hydrological conditions could adversely affect its business activities, results, financial position and cash flows.

Weather-related conditions and, in particular, seasons, have a significant impact on electricity demand. Electricity consumption levels reach their peak in summer and winter. The impact seasonal changes have on demand is reflected mainly in residential customer categories (with consumption of less than 50 MWh/year) and small businesses (with consumption between 50 MWh/year and 2 GWh/year). Seasonal changes in demand are attributed to various weather-related factors such as the climate, the amount of natural light, and the use of light, heating and air conditioning. Since ENDESA has high fixed costs, changes in demand due to weather conditions can have a major effect on the business's profitability.

The impact of seasonal variations on industrial electricity demand (with consumption of over 2 GWh/year) is less pronounced than in domestic and commercial industries, mainly due to the fact that there are various types of industrial activities which, due to their unique nature, have differing seasonal peaks. Furthermore, the effect of climate-related factors is more varied in these industries. Accordingly, ENDESA must make certain projections and estimates regarding climate conditions when negotiating its contracts and a significant divergence in the precipitation levels and other weather conditions envisaged could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is also subject to the risk of fluctuations in global demand.

Likewise, adverse weather conditions could impact the regular supply of energy due to damages to the network, with the resulting interruption in services which could compel ENDESA to compensate its customers due to delays or disruptions in the supply of energy. The occurrence of any of the foregoing circumstances could adversely affect its business activities, results, financial position and cash flows.

ENDESA is exposed to risks associated with the construction of new electricity generation and supply facilities

The construction of power generation and supply facilities can be time-consuming and highly complex. This means that investment needs to be planned well in advance of the estimated start-up date of the facility and, therefore, the Group may need to adapt its decisions to changes in the market conditions. This may entail significant additional costs not originally planned that may affect the return on these types of projects.

In connection with the development of such facilities, ENDESA generally has to obtain the related administrative authorisations and permits, acquire land purchase or lease agreements, sign equipment procurement and construction contracts, operation and maintenance agreements, fuel supply and transport agreements, off-take arrangements and obtain sufficient financing to meet its capital and debt requirements.

Factors that may affect ENDESA's ability to construct new facilities include:

- Delays in obtaining regulatory approvals, including environmental permits;
- Shortages or changes in the price of equipment, materials or labour;
- Opposition from local groups, political groups or other stakeholders;
- Adverse changes in the political environment and environmental regulations;

- Adverse weather conditions, natural catastrophes, accidents and other unforeseen events that could delay the completion of power plants or substations;
- Non-compliance by suppliers of the agreed contractual conditions; and
- Inability to obtain financing under conditions that are satisfactory to ENDESA.

Any of these factors may cause delays in completion or commencement of the Group's construction projects and may increase the cost of planned projects. In addition, if ENDESA is unable to complete these projects, any costs incurred in connection with such projects may not be recoverable.

If ENDESA faces problems related to the development and construction of new facilities, its business activities, results, financial position and cash flows may be adversely affected.

In addition, ENDESA makes investments to maintain and, where necessary, extend the technical life of its electricity power plants. The execution of these investments is dependent on market and regulatory conditions. If the necessary conditions enabling the viability of the plants do not exist, ENDESA may have to cease production at the installation and, where appropriate, and begin the task of dismantling them. These closures would involve a reduction in installed capacity and output that support customer energy sales and, therefore, could adversely affect ENDESA's business activities, results, financial position and cash flows.

5.2.2. Risk factors associated with the countries where ENDESA operates.

ENDESA's business could be affected by adverse economic or political conditions in Spain, Portugal, the Eurozone and in international markets

Adverse economic conditions could have a negative impact on energy demand and the ability of ENDESA's consumers to fulfil their payment obligations. In times of economic recession, as experienced by Spain and Portugal in recent years, electricity demand usually falls off, adversely affecting the Company's results.

The economic conditions in Spain and Portugal in recent years have adversely affected electricity demand and, therefore, ENDESA's operating results. The Company cannot predict how the economic cycle in Spain, Portugal and the Eurozone will evolve in the short term, nor can it predict whether economic conditions will worsen or deteriorate.

If the economic situation in Spain, Portugal or other Eurozone economies deteriorates, it could adversely affect energy consumption and, consequently, ENDESA's business activities, financial position, operating results and cash flows would be negatively affected.

In addition, the financial conditions in the international markets represent a challenge for ENDESA's economic situation due to the potential impact on its business of, on the one hand, the government debt level, declining growth rates and possible downgrading of government bond ratings at the international level – and, in particular, in Eurozone countries – and, on the other hand, the new monetary expansion measures expected in the credit market. Changes in any of these factors could condition ENDESA's access to capital markets and the conditions under which it obtains financing, consequently affecting its business activities, results, financial position and cash flows.

In addition to any economic problems which could arise at the international level, ENDESA faces a situation of uncertainty at political level, in Spain and internationally, which could adversely affect the Company's economic and financial position. Specifically, it is considered that the impact of Brexit and other international events, in addition to the situation in Venezuela, is not material for ENDESA.

ENDESA cannot guarantee that the international or Eurozone economic situation will not deteriorate, nor that an event of a political nature will not have a significant impact on the markets, thus affecting its economic situation. All of these factors could adversely affect ENDESA's business activities, financial position, operating results and cash flows.

5.2.3. Risks associated with Operations carried out by ENDESA

ENDESA's activities may be affected by operating risks and other significant risks

In the course of ENDESA's business activities, direct or indirect losses could arise from inadequate internal processes, technological failures, human error or certain external events, such as accidents at facilities, workplace conflicts and natural disasters. These risks and dangers could cause explosions, floods or other circumstances which could cause the total loss of the energy generation and distribution facilities; damages to or the deterioration or destruction of ENDESA's facilities, or even environmental damages; delays in electricity generation and complete disruption of the activity; or could cause personal damages or deaths. The occurrence of any of these circumstances could adversely affect its business activities, results, financial position and cash flows.

The loss of essential workers or ENDESA's inability to recruit, employ and train qualified staff could adversely affect ENDESA's business activities, results, financial position and cash flows

In order for ENDESA to be able to continue to maintain its position in the industry, it must recruit, train and retain the staff necessary who can provide the experience required within the framework of ENDESA's intellectual capital needs. The success of ENDESA's business depends on the continuity of the services provided by Company management and by other key employees with demonstrated experience, reputation and influence in the electricity industry, thanks to establishing beneficial and long-lasting relationships in the market over the years. The qualified labour market is highly competitive and ENDESA may not be able to successfully hire additional qualified staff or to replace outgoing staff with sufficiently qualified or effective employees.

ENDESA's inability to retain or recruit essential staff could adversely affect its business activities, results, financial position and cash flows.

ENDESA's insurance cover and guarantees may not be adequate or may not cover all of the damages

ENDESA's business is exposed to the risks inherent to the markets in which it operates. Despite the fact that ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business – including damages to the Company itself, general civil liability, environmental and nuclear power plant liability – it is possible that insurance cover may not be available on the market under commercially reasonable terms. Likewise, the amounts for which ENDESA is insured may not be sufficient to cover the incurred losses in their entirety.

In the event of a partial or total loss of ENDESA's facilities or other assets, or a disruption to its activities, the funds ENDESA receives from its insurance may not be sufficient to cover the complete repair or replacement of the assets or losses incurred. Furthermore, in the event of a total or partial loss of ENDESA's facilities or other assets, part of the equipment may not be easily replaced, given its high value or its specific nature, or may not be easily or immediately available.

Similarly, the cover of guarantees in relation to the aforementioned equipment or the limits to ENDESA's ability to replace the equipment could disrupt or hinder its operations or significantly delay the course of its ordinary operations. Consequently, all of the above could adversely affect ENDESA's business activities, results, financial position and cash flows.

Likewise, ENDESA's insurance contracts are subject to constant review by its insurers. It is therefore possible that ENDESA may be unable to maintain its insurance contracts under conditions similar to those currently in place in order to meet possible increases to premiums or to covers which become inaccessible. If ENDESA is unable to transfer a possible premium increase to its customers, these additional costs may adversely affect its business activities, results, financial position, and cash flows.

ENDESA manages its activities with information technology that uses the highest security and contingency standards according to the state of the art, such that it guarantees operating efficiencies, as well as the continuity of the businesses, systems and processes which contribute to attaining its corporate objectives

The business aggregates with regard to technical complexity, volume, granularity, functionality and varying situations handled by ENDESA's systems make their uses essential and represent a strategic distinguishing

element with respect to industry companies. Specifically, ENDESA's main computer systems handle the following business processes:

- Sales systems: marketing processes, demand forecasts, profitability, sales, customer service, claim management, hiring and the basic revenue cycle (validation of meter reading, invoicing, collection management and debt processing).
- Technical distribution systems: processes for managing the grid, meter-reading management, handling of new supplies, network planning, field work management, management of meter-reading equipment with advanced remote management and energy management capabilities.
- Generation systems, energy management and renewables: fuel management processes, meter-reading management, trading risk management, etc.
- Economic and financial systems: economic management, accounting, financial consolidation and balance sheet processes of the Company.

Additionally, ENDESA is currently undergoing a process of digital transformation, which involves increasing its exposure to potential cyber-attacks that could jeopardise the security of its systems and customer data bases, affecting the Company's profits and the trust deposited in it by its customers.

Management of ENDESA's business activity through these systems is key in order to perform its activity efficiently and achieve its corporate objectives. However, the existence of policies, processes, methodologies, tools and protocols based on international standards and duly audited, in addition to the development of a cyber security strategy supported by a management framework and aligned with international standards and government initiatives, does not mean that ENDESA is exempt from technical incidents that could have a negative impact on the technical continuity of its business operation, the quality of its contractual relationships with customers, or its results, financial position and cash flows.

5.2.4. Financial Risks associated with ENDESA's Business.

Note 13 to the financial statements for the year ended 31 December 2017 lists the risk management and control mechanisms.

ENDESA is exposed to interest rate risk.

Borrowings at floating interest rates are mainly tied to Euribor. Changes in interest rates in relation to financial debt not covered or that is adequately covered may be adversely affect ENDESA's business activities, results, financial position and cash flows.

Information relating to interest rate risk is provided in Note 13.1 to the Financial Statements for the year ended 31 December 2017.

ENDESA is exposed to foreign currency risk

ENDESA is exposed to foreign currency risk, mainly in relation to the payments it must make in international markets to acquire energy-related commodities, especially natural gas and international coal, where the prices of these commodities are usually denominated in US dollars.

Therefore, this means that the fluctuations in the foreign exchange rate could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information relating to exchange rate risk is provided in Note 13.2 to the Financial Statements for the year ended 31 December 2017.

ENDESA is exposed to credit risk

In its commercial and financial activities, ENDESA is exposed to the risk that its counterparty may be unable to meet all or some of its obligations, both payment obligations arising from goods already delivered and services already rendered, as well as payment obligations related to expected cash flows, in accordance with the financial derivative contracts entered into, cash deposits or financial assets. In particular, ENDESA

assumes the risk that the consumer may not be able to fulfil its payment obligations for the supply of energy, including all transmission and distribution costs.

ENDESA cannot guarantee that it will not incur losses as a result of the non-payment of commercial or financial receivables and, therefore, the failure of one or various significant counterparties to fulfil their obligations could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information relating to credit risk is provided in Note 13.4 to the Financial Statements for the year ended 31 December 2017.

ENDESA's business depends on its ability to obtain the funds necessary to refinance its debt and finance its capital expenses

ENDESA is confident that it will be able to generate funds internally (self-financing), access bank financing through long-term credit facilities, access short-term capital markets as a source of liquidity and access the long-term debt market in order to finance its organic growth programme and other capital requirements, including its commitments arising from the on-going maintenance of its current facilities. Furthermore, ENDESA occasionally needs to refinance its existing debt. This debt includes long-term credit facilities, obtained from both banks as well as companies of the Group headed by ENEL, and financial investments.

If ENDESA is unable to access capital under reasonable conditions, refinance its debt, settle its capital expenses and implement its strategy, the Company could be adversely affected. The capital and turmoil in the capital market, a possible reduction in ENDESA's creditworthiness or possible restrictions on financing conditions imposed on the credit facilities in the event financial ratios deteriorate, could increase the Company's finance costs or adversely affect its ability to access the capital markets.

A lack of financing could force ENDESA to dispose of or sell its assets to offset the liquidity shortfall in order to pay the amounts owed and this sale could occur under circumstances which prevent ENDESA from obtaining the best price for said assets. Therefore, if ENDESA is unable to access financing under acceptable conditions, ENDESA's business activities, results, financial position and cash flows could be adversely affected.

On the other hand, the conditions in which ENDESA accesses the capital markets or other means of financing, whether within the Company or on the credit market, are highly dependent upon the credit rating of the ENEL Group, of which ENDESA is part. ENDESA's capacity to access the markets and financing could therefore be adversely affected, in part, by the credit and financial position of ENEL, to the extent that it could determine the availability of intercompany financing for ENDESA or the conditions under which the Company accesses the capital market.

In this connection, the deterioration of ENEL's credit rating and, consequently, that of ENDESA, could limit ENDESA's ability to access the capital markets or any other means of financing (or refinancing) from third parties or increase the cost of these transactions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

5.2.5. Tax Risks.

Technical tax risk

This is the possible risk that the tax authorities may demand more contributions from the taxpayer than expected in relation to tax returns or returns not presented, or in addition to the returns presented or unpaid tax, due to different interpretations of laws or regulations or new regulations that may be introduced retroactively, in connection with tax payable, late-interest penalties, fines or any other item entailing tax debt. This risk is associated both with compliance with current regulations and changes in their interpretation.

The information relating to the tax periods open for review is detailed in Note 15.10 to the financial statements for the year ended 31 December 2017.

Any change to the tax legislation applicable or to its interpretation could affect ENDESA's tax obligations, entailing fines, extra costs or increases in its obligations which could adversely affect its business activities, outlook, operational results, financial position and cash flows.

Reputational risk arising from tax matters

The derived risk that the company's main audience's perception, assessment or opinion of it be seriously affected due to the company's own actions, events that are wrongly or unfairly attributed to it, or due to events of similar nature that affect the entire sector and are projected on the company in a more pointed or damaging fashion.

ENDESA could be held liable for income tax and value added tax (VAT) charges corresponding to the tax group of which it forms part or has formed part.

Since 2010, ENDESA has filed consolidated tax returns for income tax purposes, as part of consolidated tax group no. 572/10, the parent of which is ENEL, S.p.A. and ENEL Iberia, S.L.U. The representative in Spain. Likewise, since January 2010, ENDESA has formed part of the Spanish consolidated VAT group no. 45/10, the parent of which is also ENEL Iberia, S.L.U. Until 2009, ENDESA filed consolidated tax returns as the Parent under group no. 42/1998 for income tax and under group no. 145/08 for VAT.

Also, ENEL Green Power España, S.L.U. (EGPE), a wholly-owned ENDESA subsidiary, has been fully consolidated between 2010 and 2016 as part of the Group number 574/10 of which ENEL Green Power España, S.L.U. (EGPE) was the Parent. From 1 January 2017, ENEL Green Power España, S.L.U. (EGPE) has paid taxes as part of tax group number 572/10 of which ENEL, S.p.A. is the Parent and ENEL Iberia, S.L.U. is the representative in Spain.

In accordance with the regime for filing consolidated tax returns for purposes of income tax and VAT for company groups, all of the Group companies which file consolidated tax returns are jointly responsible for paying the Group's tax charge. This includes certain sanctions arising from failure to comply with specific obligations imposed under the VAT regime for company groups.

As a result of this, ENDESA is jointly responsible for paying the tax charge of the other members of the consolidated tax Groups to which it belongs or has belonged for all tax periods still open for review. ENEL Green Power España, S.L.U. (EGPE) is also responsible for this with respect to the other members of the tax consolidation group of which it has formed part.

Even though ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), has the right to recourse against the other members of the corresponding consolidated tax group, it could be held jointly liable if any outstanding tax charge were to arise which had not been duly settled by another member of the consolidated tax groups of which ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), forms or has formed part. Any material tax liability could adversely affect ENDESA's business activities, results, financial position and cash flows.

5.2.6. Other risks.

The ENEL Group controls the majority of ENDESA's share capital and voting rights and the interests of the ENEL Group could conflict with those of ENDESA.

At 31 December 2017, the ENEL Group, through ENEL Iberia, S.L.U., held 70,101% of ENDESA, S.A.'s share capital and voting rights, enabling it to appoint the majority of ENDESA, S.A.'s Board members and, therefore, to control management of the business and its management policies.

In addition, certain of the relationships that ENDESA currently maintains with its principal international suppliers and providers in the sector are, and will continue to be, managed by ENEL, S.p.A.

The ENEL Group's interests may differ from the interests of ENDESA or those of its shareholders. Furthermore, both the ENEL Group and ENDESA compete in the European electricity market. It not possible to ensure that the interests of the ENEL Group will coincide with the interests of ENDESA's other shareholders or that the ENEL Group will act in support of ENDESA's interests.

Information on balances and transactions with related parties is provided in Note 18 to the financial statements for the year ended 31 December 2017.

ENDESA is involved in court and arbitration proceedings

ENDESA is party to various ongoing legal proceedings related to its business activities, including tax, regulatory and antitrust disputes. It is also subject to ongoing or possible tax audits. In general, ENDESA is exposed to third-party claims from all jurisdictions (criminal, civil, commercial, labour and economic-administrative) and in national and international arbitration proceedings.

Although ENDESA considers that the appropriate provisions have been made for any legal contingencies, it has not made provisions for all amounts claimed in each and every one of the proceedings. In particular, it has not made provisions in cases in which it is impossible to quantify the possible negative outcome nor in cases in which the Company considers such negative outcome unlikely. No guarantee can be made that ENDESA has allocated adequate provisions for contingencies, that it will be successful in the proceedings in which it expects a positive outcome, or that an unfavourable decision will not adversely affect ENDESA's business activities, results, financial position and cash flows. Furthermore, the Company cannot ensure that it will not be the object of new legal proceedings in the future which, if the outcome were unfavourable, would not have an adverse effect on its business activities, operating results, financial position or cash flows.

Information on litigation and arbitration is provided in Note 11.3 to the financial statements for the year ended 31 December 2017.

ENDESA is exposed to image and reputation impairment risk

ENDESA is exposed to the opinion and perception projected to different interest groups. This perception could deteriorate as a result of events produced by the Company or third parties over which it has little or no control. Should this occur, this could lead to economic detriment for the Company due, among other factors, to increased requirements on the part of regulators, higher borrowing costs or increased efforts to attract customers.

Although ENDESA actively work to identify and monitor potential reputational events and interest groups affected, and transparency forms part of its communications policy, there is no guarantee that it will not have its image or reputation impaired which, since the outcome would be unfavourable, will have an adverse effect on its business, operating results, financial situation or cash flows.

ENDESA is exposed to sustainability risks.

Sustainability issues are now much more relevant, and in the years ahead they could increasingly affect some of the risks faced by ENDESA. Among these emerging global tendencies, the following factors have been identified as those which could affect ENDESA most: loss of biodiversity, terrorism, hydric stress, cyber security, inequality and social instability, involuntary large-scale immigration, extreme climate events and environmental disasters and climate change.

6. Policy on derivative financial instruments.

Information on derivative financial instruments is provided in Note 14 to the Consolidated Financial Statements of ENDESA S.A., for the year ended 31 December 2017.

7. Human resources.

At 31 December 2017, the Company had a total of 1,360 employees (1,391 employees at 31 December 2016). The Company's average workforce in 2017 was 1,405 employees (1,394 in 2016). The breakdown, by gender, of the workforce was 48.9% male at 31 December 2017, and the remaining 51.1% were female.

Information on the workforce is provided in Note 19.1 to the Consolidated Financial Statements of ENDESA S.A. for the year ended 31 December 2017.

Occupational Safety and Health (OHL).

ENDESA S.A. considers the occupational safety and health (“SSL”) of its employees to be a fundamental principle and preserves it by developing a strong culture between employees and shareholders. In this regard, it ensures that employees have a healthy and safe workplace environment at all times and in all areas in which they act.

In 2017, the evolution in the combined frequency index was from 1.01 to 1.26. Also, the combined seriousness index was from 0.02 to 0.08.

8. Treasury shares.

The Company did not hold any treasury shares at 31 December 2017 and did not carry out any transactions involving treasury shares in 2017.

9. Environmental protection.

Information on the environmental activities is provided in Note 20 to the Consolidated Financial Statements of ENDESA S.A. for the year ended 31 December 2017.

10. Research and development activities.

The Company did not carry out any research and development activities directly as these fall within the remit of its subsidiaries.

11. Information on the Average Payment Period to Suppliers.

Information on the average payment period to suppliers is provided in Note 19.3 to the Financial Statements of ENDESA S.A. for the year ended 31 December 2017.

12. Annual Corporate Governance Report as required by Article 538 of Royal Decree Law 1/2010, of 2 July, approving the Consolidated Text of the Spanish Corporate Enterprises Act.

The 2017 Annual Corporate Governance Report as required by Article 538 of Royal Decree Law 1/2010, of 2 July, approving the consolidated text of the Spanish Corporate Enterprises Act, is included as Appendix I to this Management Report, and forms an integral part thereof.

13. Statement of Non-financial Information as required by Royal Decree Law 18/2017, of 24 November, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Decree Law 1/2010, of 2 July, and Law 22/2015, of 20 July, on the auditing of financial statements.

The Statement of Non-financial Information as required by Royal Decree Law 18/2017, of 24 November, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved

by Royal Decree Law 1/2010, of 2 July, and Law 22/2015, of 20 July, on the auditing of financial statements, is included as Appendix II to this Management Report, and forms an integral part thereof.

26 February 201

APPENDIX I

Annual Corporate Governance Report

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

END OF RELATIVE FINANCIAL YEAR	31/12/2017

COMPANY TAX ID (C.I.F.):	A-28023430

CORPORATE NAME

ENDESA, S.A.

REGISTERED OFFICE

RIBERA DEL LOIRA, 60, MADRID

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the Company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
01/10/1999	1,270,502,540.40	1,058,752,117	1,058,752,117

Indicate whether different types of shares exist with different associated rights.

Yes

No X

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ENEL, S.P.A.	0	742,195,713	70.10%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
ENEL, S.P.A.	ENEL IBERIA SRL	742,195,713

Indicate the most significant movements in the shareholder structure during the year.

A.3 Complete the following tables on company directors holding voting rights through company shares.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	0	30,471	0.00%
JOSE DAMIAN BOGAS GALVEZ	2,374	0	0.00%
MR. ALEJANDRO ECHEVARRÍA BUSQUET	200	0	0.00%
HELENA REVOREDO DELVECCHIO	332	0	0.00%
MIQUEL ROCA JUNYENT	363	0	0.00%
MR. BORJA PRADO EULATE	16,405	0	0.00%
FRANCISCO DE LACERDA	0	0	0.00%
FRANCESCO STARACE	10	0	0.00%
ENRICO VIALE	2,500	0	0.00%
ALBERTO DE PAOLI	10	0	0.00%
MS. MARIA PATRIZIA GRIECO	0	0	0.00%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	MANILA INVERSIONES GLOBALES SICAV, S.A.	30,471

Complete the following tables on share options held by directors.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name
ENEL IBERIA SRL ENEL, S.P.A.

Type of relationship: Corporate

Brief Description:

Enel, S.p.A. holds 100% of the shares in Enel Iberia, SRL.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name
ENDESA INGENIERÍA, S.L.U. ENEL SOLE, S.R.L.

Type of relationship:

Company **Brief**

Description:

Endesa Ingeniería, S.L.U. (an Endesa Group subsidiary) and Enel Sole, S.r.L. (an Enel Group subsidiary) hold 50% stakes in the following temporary joint ventures: Mérida, Abarán, Rincón de la Victoria, Bolullos, Castro del Río, Muro de Alcoy, Fuente Álamo, Mora de Ebro, Los Alcázares, Vélez Rubio, Écija, Almodóvar del Río and Manacor. Endesa Ingeniería, S.L.U. (10%), Endesa Energía, S.A.U. (25%) (Endesa Group subsidiary) and Enel Sole, S.r.L. (25%) (an Enel Group subsidiary) hold stakes in the Móstoles temporary joint venture

Related party name or corporate name
ENDESA GENERACIÓN, S.A.U. ENEL, S.P.A.

Type of relationship:

Company **Brief**

Description:

Endesa Generación, S.A.U. (an Endesa Group subsidiary) and Enel S.p.A hold 40.99% and 4.32% stakes in the share capital of Elcogas, S.A., respectively.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes

No X

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable.

Yes

No X

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

-

A.7. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company pursuant to article 4 of the Securities' Market Act. If so, identify.

Yes X

No

Name or corporate name
ENEL IBERIA SRL

Remarks

Enel, S.p.A. is the sole shareholder of Enel Iberia

A.8 Complete the following tables on the company's treasury shares. At

year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

(*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Explain the significant changes

A.9 Give details to the Board of Directors of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back or transfer treasury stock.

At the Ordinary General Meeting of 27 April 2015, shareholders authorized the Company and its subsidiaries to acquire treasury shares pursuant to the provisions of Article 146 of Spain's Corporate Enterprises Act.

I. To revoke and make void, as to the unused portion, the authorization for the derivative acquisition of treasury shares, granted by the Ordinary General Shareholders' Meeting held on 21 June, 2010.

II. To once again authorize the derivative acquisition of treasury shares, as well as the pre-emptive rights of first refusal in respect thereto, pursuant to article 146 of the Spanish Corporate Enterprises Act under the following conditions:

- Acquisitions may be made via any legally accepted method, directly by ENDESA, S.A., by its Group companies or by proxy, up to the maximum legal limit.
- Acquisitions shall be made at a minimum price per share of its par value and a maximum equal to their trading value plus an additional 5%.
- The duration of this authorization shall be 5 years.

d) As a consequence of the acquisition of shares, including those purchased previously and held at the time of the acquisition by the company or persons acting on their own behalf but in its stead, the resulting net equity shall not be reduced to below the sum of the share capital plus the restricted reserves established by law or the bylaws, all in accordance with the provisions of letter b) of article 146.1 of Spain's Corporate Enterprises Act.

The authorization also includes the acquisition of shares which, as the case may be, must be delivered directly to the employees and Directors of the Company or its subsidiaries, as a consequence of the exercise of stock option rights held thereby.

A.9 (2) Estimated floating capital:

	%
Estimated floating capital	29.90

A.10 Give details of any restriction on the transfer of securities or voting rights. In particular, indicate any restrictions that could prevent a party from taking control of the company by acquiring its shares on the market.

Yes

No X

A.11 Indicate whether the general shareholders' meeting has agreed to take neutralization measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes

No X

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes

No X

If so, indicate the different classes of shares and, for each class, the rights and obligations carried thereby.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the general shareholders' meeting. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).

Yes

No X

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC.

Yes

No X

Describe how they differ from the rules established under the LSC.

B.3 Indicate the rules for modifying the company's bylaws. In particular, indicate the majorities required to amend the bylaws and, if applicable, the rules for protecting shareholders' rights when changing the bylaws.

Pursuant to article 26 of the Bylaws, in order for the General or an Extraordinary Shareholders' Meeting to validly agree on the amendment to the Corporate Bylaws, on first call, shareholders representing at least 50% of the subscribed capital with voting rights must be present. At second call, 25% of the capital must be represented.

Indicate the attendance figures for the general shareholders' meetings held during the year and the preceding year.

Date of General Shareholders' Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Others	
27/04/2015	70.17%	13.09%	0.00%	1.53%	84.79%
26/04/2016	70.13%	14.45%	0.00%	1.77%	86.35%
26/04/2017	70.12%	14.47%	0.00%	1.02%	85.61%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes

No X

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The Company's website is www.endesa.com

- Information on "Corporate Governance" can be accessed from the homepage via "Investors"

To access General Shareholders' Meeting content, a direct banner link is posted on the home page from the time the meeting is called until it is held.

Once the meeting has been held, the General Shareholders' Meeting information can be accessed through two channels:

- Shareholders and Investors - Corporate Governance - Shareholders Meetings
- Shareholders and Investors - Shareholders - Shareholders Meetings

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the bylaws.

Maximum number of directors	15
Minimum number of directors	9

C.1.2. Complete the following table with Board members' details.

Name or corporate name of Director	Representative	Category of the director	Position on the board	Date first appoint.	Date last appoint.	Election procedure
IGNACIO GARRALDA RUIZ DE VELASCO		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
JOSE DAMIAN BOGAS GALVEZ		Executive	CHIEF EXECUTIVE OFFICER	07/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MR. ALEJANDRO ECHEVARRÍA BUSQUET		Independent	DIRECTOR	25/06/2009	26/04/2017	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
HELENA REVOREDO DELVECCHIO		Independent	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MIQUEL ROCA JUNYENT		Independent	DIRECTOR	25/06/2009	26/04/2017	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MR. BORJA PRADO EULATE		Executive	CHAIRMAN	20/06/2007	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCISCO DE LACERDA		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCESCO STARACE		Proprietary	VICE CHAIRMAN	16/06/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ENRICO VIALE		Proprietary	DIRECTOR	21/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ALBERTO DE PAOLI		Proprietary	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MS. MARIA PATRIZIA GRIECO		Proprietary	DIRECTOR	26/04/2017	26/04/2017	COOPTATION

Total number of Directors	11

Indicate any board members who left during this period.

Name or corporate name of director	Category of the director at the time	Leaving date
LIVIO GALLO	Proprietary	26/04/2017

C.1.3. Complete the following tables on Board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Post held in the company
JOSE DAMIAN BOGAS GALVEZ	Chief Executive Officer
MR. BORJA PRADO EULATE	CHAIRMAN

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
FRANCESCO STARACE	ENEL, S.P.A.
ENRICO VIALE	ENEL, S.P.A.
ALBERTO DE PAOLI	ENEL, S.P.A.
MARIA PATRIZIA GRIECO	ENEL, S.P.A.

Total number of proprietary directors	4
% of the board	36.36%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

IGNACIO GARRALDA RUIZ DE VELASCO

Profile:

Born in Madrid in 1951. Holds a degree in Law from the Complutense University of Madrid, Chartered Trade Broker and Stock and Exchange Broker.

Chairman and CEO of Mutua Madrileña, First Vice Chairman of Bolsas y Mercados Españoles (BME). Director at Caixabank, S.A.

Name or corporate name of director: MR. ALEJANDRO

ECHEVARRÍA BUSQUET

Profile:

Born in Bilbao in 1942, he holds a degree in Business Administration from the University of Deusto. Chairman of Mediaset España Comunicación, S.A. Director at Sociedad Vascongada de Publicaciones, S.A., CVNE, Editorial Cantabria, S.A., Diario El Correo and Willis Iberia.

Name or corporate name of director: HELENA REVOREDO

DELVECCHIO

Profile:

Born in Rosario (Argentina) in 1947. Holds a degree in Business Management and Administration from the Pontifical Catholic University of Argentina and PADE (Business Senior Management Programme) from the IESE Business School.

Chairwoman of Prosegur Compañía de Seguridad, S.A., Chairwoman of the Prosegur Foundation. Director at Mediaset España Comunicación, Romercapital SICAV, S.A., Proactinmo, S.L., Gubel, S.L., and Euroforum Escorial, S.A.

Name or corporate name of director: MIQUEL ROCA

JUNYENT

Profile:

Born in Cauderan (France) in 1940. Law graduate from the University of Barcelona and holder of an Honorary Doctorate from the distance learning universities of León, Gerona and Cadiz.

Chairwoman and Partner of the Roca Junyent Law Firm, Ombudsman for Catalana Occidente. Secretary - Non-director at Banco Sabadell, Abertis Infraestructuras, TYPESA, Accesos de Madrid, S.A. and Werfenlife, S.L. Director at ACS and Aigües de Barcelona.

Name or corporate name of director:

FRANCISCO DE LACERDA

Profile:

Born in Lisbon in 1960. Holds a degree in Business Administration from the Catholic University of Portugal.

Vice Chairman & CEO of CTT - Correos de Portugal, Chairman of Banco CTT, Chairman of CTT Expresso, Presidente de Tourline Express, Chairman of Cotec Portugal.

Total number of independent directors	5
% of the board	45.45%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration,

- or who maintain or have maintained during the period in question a business relationship with the company
- or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Maria Helena Revoredo Delvecchio, has been Chairwoman of Prosegur, and an independent Director at Endesa since 4 November 2014.

Maria Helena Revoredo performs her functions as an independent director of ENDESA S.A. without prejudice to the possible commercial relationship between the Prosegur and Endesa Groups.

In this connection, during 2017, the Prosegur Group formally arranged a security and surveillance service provision agreement with Group Endesa for the latter's facilities in Spain. The services were awarded by Endesa's Board of Directors, based on the results of the corresponding tender processes, without the involvement of Revoredo, pursuant to the legislation applicable to conflicts of interests. The agreement was approved for a term of one year, for an amount of Euros 0.69 million.

In any case, as part of these transactions it must be noted that: the nature of the service is ordinary; the service is provided under market conditions, as demonstrated in the external advisor report issued to this end; and pursuant to international good corporate governance practice criteria, the amount is not significant or material, as these amounts come to less than 1% of the income or billing volume of both companies.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

OTHER EXTERNAL DIRECTORS

The other external directors will be identified and the reasons listed why they cannot be considered proprietary or independent directors and details will be given of their relationships with the company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year.

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

	Number of female directors				% of total directors of each type			
	FY 2017	FY 2016	FY 2015	FY 2014	FY 2017	FY 2016	FY 2015	FY 2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	1	0	0	0	25.00%	0.00%	0.00%	0.00%
Independent	1	1	1	1	20.00%	20.00%	20.00%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	2	1	1	1	18.18%	9.09%	9.09%	11.11%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures
On 10 November 2015, the Board of Directors approved a specific and attestable Policy for Selecting Directors, which aims for the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, financial and economical, and legal), also promoting, insofar as possible, diversity of age and gender. Particularly, with regard to gender diversity, the Company's Policy for Selecting Directors establishes the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. In this connection, the recent inclusion of Maria Patrizia Grieco on the Board of Directors at Endesa has increased the percentage of female directors from 9% to 18%.

C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures
Endesa is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key element of its corporate governance strategy. Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximizing the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the organization, especially in leadership positions and, in particular, on the Board of Directors. In this regard, the Policy for Selecting Directors will promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. Selection process: The Appointments and Remuneration Committee will base its proposals for appointing, ratifying or re-electing on the outcome of an objective, attestable and transparent selection process, which will start with a preliminary analysis of the requirements of the Board of Directors, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, taking the integration of different management and professional experiences and skills as the goal, and promoting diversity of knowledge, experiences and gender, considering the weight of the different activities performed by Endesa and taking into account those areas or sectors that must be the object of specific promotion, such as information technologies. When analyzing candidates, the Appointments and Remuneration Committee, based on the needs of the Board of Directors and the requirements that the Board's internal committees may have on an individual or joint basis, will assess the following elements: i) the candidates' professional and technical skills. As a whole, directors must fulfil the knowledge required of the activities undertaken by the Company, in terms of economic and financial aspects, accounting, audit, internal control and business risk management aspects, amongst others. ii) the candidates' management experience, also taking into account the context in which Endesa operates; iii) the commitment required for performing the role, also assessing the roles already performed by the candidates in other companies; iv) the possible existence of conflicts of interest; v) the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also

vi) possible pending procedures, against the candidates, and also any criminal sentences or administrative penalties that the competent authorities may have imposed on them.

In the case of candidates for independent director, the Appointments and Remuneration Committee will especially verify compliance with the requirements for independence established by Law.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who assume a commitment of sufficient dedication for the performance of the tasks inherent therein.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of reasons

Not applicable

C.1.6 (2) Explain the conclusions of the appointments committee on the verification of compliance with the Policy for Selecting Directors. And, in particular, on how this policy is promoting the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

Explanation of conclusions

At its meeting on 18 December 2017, the Appointments and Remuneration Committee unanimously agreed, in terms of verifying the compliance of the policy for selecting candidates for the office of director, that the composition of the Board of Directors, in terms of number of members, structure and the professional experience and skills of its members, is currently appropriate based on the needs of the Company and in line with best corporate governance practices.

On 26 April 2017, María Patrizia Grieco was chosen by the method of co-option as a member of the Board of Directors at Endesa, S.A. as an external proprietary director.

Endesa is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key element of its corporate governance strategy. This appointment is a testament to Endesa's dedication to promoting the participation and development of women in the Organization, especially in leadership positions and, in particular, on the Board of Directors and to fulfilling the objective of female directors accounting for at least 30% of Board members by 2020.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

70,101% of Endesa's share capital is held by a single shareholder, the company ENEL IBERIA, S.R.L. The Italian company Enel, S.p.A holds 100% of the shares (and the voting rights) of ENEL IBERIA, S.R.L.

In this connection, the Board of Directors at Endesa, S.A. consists of eleven members: five independent directors, four proprietary directors (representatives of Enel, S.p.A.), and two executive directors (Chairman and Chief Executive Officer), who were appointed to their posts with Enel, S.p.A. as the controlling shareholder.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes

No X

C.1.9 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director.

Name of director:

LIVIO GALLO

Reasons for resignation:

The Proprietary Director, Livio Gallo, submitted his resignation as member of the Board of Directors at Endesa S.A. on personal grounds, in writing to the Board of Directors on 21 April 2017.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

Name or corporate name of Director: JOSE

DAMIAN BOGAS GALVEZ

Brief Description:

Since 7 October 2014, the Board of Directors has delegated all powers of the Board that could be delegated legally and as per the bylaws to the Chief Executive Officer.

The Chief Executive Officer of Endesa, S.A., José Damián Bogas Gálvez, shall exercise all powers delegated to him jointly with the Executive Committee of the Board of Directors, as applicable.

C.1.11 List the Directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group.

Name or corporate name of Director	Corporate name of the group company	Position	Performs executive duties?
JOSE DAMIAN BOGAS GALVEZ	Endesa Generación II	Joint director	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of Director	Corporate name of the group company	Position
IGNACIO GARRALDA RUIZ DE VELASCO	BOLSAS Y MERCADOS ESPAÑOLES SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A.	VICE CHAIRMAN
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEDIASET ESPAÑA COMUNICACIÓN S.A.	CHAIRMAN
HELENA REVOREDO DELVECCHIO	PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A.	CHAIRMAN

Name or corporate name of Director	Corporate name of the group company	Position
HELENA REVOREDO DELVECCHIO	MEDIASET ESPAÑA COMUNICACIÓN S.A.	DIRECTOR
MIQUEL ROCA JUNYENT	ACS. S.A.	DIRECTOR
FRANCISCO DE LACERDA	CTT CORREOS DE PORTUGAL	VICE CHAIRMAN
IGNACIO GARRALDA RUIZ DE VELASCO	CAIXABANK, S.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	ANIMA HOLDING, S.P.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	FERRARI, N.V.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	AMPLIFON S.P.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	CIR S.P.A.	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes X

No

Explanation of rules
Article 10 of the Board Regulations establishes Incompatibilities for Directors and stipulates that any individual sitting on more than four boards of directors of listed companies, or eight organizations in total (including listed and unlisted companies), may not be appointed as a Director of the Company, considering that membership on various boards of directors for companies within the same group shall, for these purposes, count as one board for each group of companies. In addition, for these purposes, any board of directors on which the Director sits shall not count when said board is that of a company that may submit abbreviated balance sheets and statements of changes in net equity or which is a holding company or a mere financial vehicle corporation.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the board of directors in the year.

Remuneration paid to the board of directors (thousands of Euros)	6,651
Amount of pension rights accumulated by current directors (thousands of Euros)	12,815
Amount of pension rights accumulated by former directors (thousands of Euros)	3,464

C.1.16. List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position
MR. JUAN MARÍA MORENO MELLADO	GENERAL MANAGER NUCLEAR
FRANCISCO BORJA ACHA BESGA	GENERAL SECRETARY AND SECRETARY OF THE BOARD OF DIRECTORS AND GENERAL MANAGER LEGAL AFFAIRS
MR. JAVIER URIARTE MONEREO	GENERAL MANAGER MARKETING
PABLO AZCOITIA LORENTE	GENERAL MANAGER PROCUREMENT
MARÍA MALAXECHEVARRÍA GRANDE	GENERAL MANAGER SUSTAINABILITY
ALVARO QUIRALTE ABELLO	GENERAL MANAGER ENERGY MANAGEMENT
JOSÉ LUIS PUCHE CASTILLEJO	GENERAL MANAGER RESOURCES
ALBERTO FERNÁNDEZ TORRES	GENERAL MANAGER COMMUNICATION
MANUEL MARÍN GUZMÁN	GENERAL MANAGER ICT
MR. ENRIQUE DE LAS MORENAS MONEO	GENERAL MANAGER RENEWABLE ENERGY
JOSÉ CASAS MARÍN	GENERAL MANAGER INSTITUTIONS AND REGULATION

Name or corporate name	Position
MANUEL MORAN CASERO	GENERAL MANAGER GENERATION
MR. PAOLO BONDI	GENERAL MANAGER ADMINISTRATION, FINANCE AND CONTROL
ANDREA LO FASO	GENERAL MANAGER HR AND ORGANISATION
FRANCESCO AMADEI	GENERAL MANAGER INFRASTRUCTURE AND NETWORKS
MR. LUCA MINZOLINI	GENERAL MANAGER AUDIT
MR. JOSEP TRABADO FARRÉ	E-SOLUTIONS GENERAL MANAGER

Total remuneration received by senior management	12,444

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position
JOSE DAMIAN BOGAS GALVEZ	ENEL IBERIA SRL	DIRECTOR
MR. BORJA PRADO EULATE	ENEL IBERIA SRL	DIRECTOR
FRANCESCO STARACE	ENEL, S.P.A.	CHIEF EXECUTIVE OFFICER
FRANCESCO STARACE	ENEL IBERIA SRL	CHAIRMAN
ENRICO VIALE	CESI	DIRECTOR
ENRICO VIALE	ENEL AMERICAS, S.A.	DIRECTOR
ALBERTO DE PAOLI	ENEL GREEN POWER, S.P.A.	CHAIRMAN
MS. MARIA PATRIZIA GRIECO	ENEL, S.P.A.	CHAIRMAN
ENRICO VIALE	ENEL GLOBAL THERMAL GENERATION SRL	DIRECTOR
ENRICO VIALE	SLOVAK POWER HOLDING	DIRECTOR

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of linked director: ENRICO

VIALE

Name or corporate name of linked significant shareholder: ENEL,
S.p.A.

Description of relationship:
Manager of Thermal Generation

Name or corporate name of linked director: ALBERTO

DE PAOLI

Name or corporate name of linked significant shareholder: ENEL,
S.p.A.

Description of relationship:

C.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year.

Yes X

No

Description of amendments
Primarily on account of the new EU and Spanish regulations on account auditing, the recently passed Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and the approval of the "Technical Guide 3/2017: On audit committees at public-interest entities" (the "Technical Guide") by the Spanish National Securities Market Commission on 27 June 2017, the Board Regulations have been amended to adapt its content to these rules and documents and thus introduce specific technical improvements and to bring them into line with other internal regulations at the Company. The main changes made can be consulted below: - Title One: Removal of the subsidiary assignment of all powers that do not correspond to the General Shareholders' Meeting to the Board of Directors has been proposed, in light of the legal assignment of powers established in the Law concerning the Board's internal committees. Different express references to non-financial information have been included, pursuant to the provisions of Royal Decree-Law No. 18/2017, of 24 November, on non-financial information. The ability to create Advisory Committees has been removed. - Title Three: Technique and drafting improvements have been included in matters affecting "Director Incompatibilities". - Title Six: Article 23, on the Audit and Compliance Committee, has experienced the most changes, fundamentally in order to adapt to the Spanish National Securities Market Commission's Technical Guide. Thus, firstly, the system in terms of the composition of the Committee has been changed (given that, based on the legal requirements, it must be made by for the large part of independent directors, rather than at least two) and the knowledge and experience of members (both individually and the Committee as a whole). Likewise, the sections on the main functions of the Committee have been changed (which shall be to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the independence of the auditor and the efficiency of internal risk control and management systems, in addition to informing the Board of Directors of operations with related parties) and the regulation of the Committee's specific functions, with the wording simplified to include further details in the Audit and Compliance Committee Regulations and to adapt its content to the Technical Guide and actual organizational and functional structure of the Company. Finally, it has been established that attendance of senior management and employees at Committee meetings shall be subject to prior invitation by the Chairman of the Committee. - Title Seven: Technique and drafting improvements have been included in matters affecting "Director Disclosure Requirements". Specifically, a new article 28 bis has been included, with the heading "Disclosure requirements", which will comprise different sections of the Regulation which up until now had been contained in other articles. - Title Ten: Article 31 modifies paragraph 2 to specify that the Board of Director's supervision of information systems for the different groups of shareholders shall be undertaken by the Audit and Compliance Committee.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Selection: in addition to its other duties, the Appointments and Remuneration Committee (hereinafter CNR) is tasked with assessing the skills, knowledge and experience needed on the Board of Directors. To this end, it will define the functions and skills required by the candidates to cover each vacancy and assess the time and dedication needed to adequately perform their duties, ensuring, in particular, that non-executive board members have sufficient time available to correctly perform their duties and raise proposals to appoint independent directors to the Board of Directors and report on the proposals of other directors. In line with the policy for selecting candidates for the office of director, the CNR will base its proposals for appointing, ratifying or re-electing on the outcome of an objective, attestable and transparent selection process, which will start with a preliminary analysis of the requirements of the Board of Directors, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, taking the integration of different management and professional experiences and skills as the goal, and promoting diversity of knowledge, experiences and gender, considering the weight of the different activities performed by Endesa and taking into account those areas or sectors that must be the object of specific promotion, such as information technologies.

When analyzing candidates, the CNR, based on the needs of the Board of Directors and the requirements that the Board's internal committees may have on an individual or joint basis, will assess the following elements:

- the candidates' professional and technical skills. As a whole, directors must fulfil the knowledge required of the activities undertaken by the Company, in terms of economic and financial aspects, accounting, audit, internal control and business risk management aspects, amongst others.
- the candidates' management experience, also taking into account the context in which Endesa operates;
- the commitment required for performing the role, also assessing the roles already performed by the candidates in other companies;
- the possible existence of conflicts of interest;
- the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also

vi) possible pending procedures, against the candidates, and also any criminal sentences or administrative penalties that the competent authorities may have imposed on them.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who assume a commitment of sufficient dedication for the performance of the tasks inherent therein.

To select candidates, the CNR may request the services of one or more external consultants specializing in the search for and selection of candidates with a view to enhancing the efficiency, effectiveness and impartiality of procedures for identifying candidates.

- Appointment: The General Shareholders' Meeting is responsible for both appointing and removing members of the Board of Directors. In the event of vacancies arising on the Board of Directors, the same shall appoint Directors, following a report by the Appointments and Remuneration Committee, until the next General Shareholders' Meeting is held.

- Re-election: The term of office of Directors shall be four years and they may be re-elected for periods of like duration.

The proposed re-election of Directors made by the Board of Directors to the General Shareholders' Meeting shall be made at the proposal of the Appointments and Compensation Committee, in the case of Independent Directors, and following a report by said Committee for all other types of Directors.

- Evaluation: Each year, the Board of Directors shall assess the quality and efficiency of the Board's operation following a report from the Appointments and Remuneration Committee, the performance of their duties by the Chairman of the Board and by the Chief Executive Officer, based on the report from the Appointments and Compensation Committee, and the operation and composition of its Committees and of the Executive Committee, as the case may be, in view of the report submitted thereto by said Committees.

The Board of Directors shall propose, based on the results of the assessment, an action plan to correct any identified deficiencies. The results shall be included in the meeting minutes or as an attachment thereto. Every three years, the Board of Directors shall be assisted in carrying out an assessment by an independent external consultant, whose independence will be verified by the CNR.

- Removal: The position of Director may be renounced and revoked. The term of office of Directors shall be four years. The General Shareholders' Meeting is responsible for removing members of the Board of Directors. Furthermore, and prior thereto, the CNR shall be responsible for proposing or informing the Board of Directors of the removal of a Board member, with reference to Independent Directors or other categories of Directors, respectively, when: their remaining on the Board of Directors may impair the credit and reputation of the Company, or they are subject to any instance of incompatibility or prohibition, or the shareholders that they represent transfer their equity stake in its entirety, or reduce it.

C.1.20 Explain to what extent the Board's annual evaluation has prompted significant changes in its internal organization and the procedures applicable to its activities.

Description of amendments
As a result of the annual evaluation process on the functioning of the Board and of its Committees in 2017, no changes have been made to the internal organization of the Board of Directors or its Committees, nor to the procedures applicable to their activities.

C.1.20 (2) Describe the evaluation process and the areas evaluated by the Board of Directors aided, where applicable, by an external consultant, with regard to diversity in its composition and powers, the operation and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

In October 2017, the start of the Endesa S.A. Board of Directors self-assessment process was agreed upon, complying with art. 529 (9) LSC and recommendation 36 of the Good Governance Code for CNMV Listed Companies, which states that the Plenary of the Board of Directors must evaluate and adopt, where applicable, an action plan once a year, to correct any deficiencies detected, regarding:

- The quality and efficiency of the functioning of the board of directors.
- The operation and composition of its committees.
- Diversity in the composition and powers of the Board of Directors.
- The performance of their duties by the chairman of the board of directors and by the company's chief executive officer.
- The performance and contribution of each director, paying special attention to the managers of the Board's different committees.

The 2017 assessment was performed without the involvement of an external consultant (the 2015 assessment was performed with assistance from KPMG).

The evaluation process has involved the following different aspects:

- Assessment and self-assessment of members of the Board of Directors, the Audit Committee (including the evaluation of all Board members), the Appointments and Remuneration Committee, the Chairman of the Board, the Chief Executive Officer and the Secretary of the Board of Directors.
- Creation of a report with the responses to the questions posed and a spreadsheet containing the aspects most and least valued by Directors. Furthermore, the report shall include a comparison with the results obtained during the previous year.
- Improvement actions to be implemented in 2018, for the purpose of correcting deficiencies detected.

C.1.20 (3) List, where applicable, the business relationships that the consultant or any company in its group maintains with the Company or any Group company.

C.1.21. Indicate the cases in which Directors must resign.

Directors must resign in the events described in article 12.2 of the Board of Directors' Regulations.

In this connection, Directors must tender their resignation in the following circumstances: their remaining on the Board of Directors may impair the credit and reputation of the Company, or they are subject to any instance of incompatibility or prohibition provided for by law or in the Bylaws or Regulations of the Board of Directors.

Furthermore, Independent Directors must tender their resignation, when just cause is found by the Board of Directors, following a report by the Appointments and Remuneration Committee, and Proprietary Directors when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors will be reduced.

Finally, in the event that a Director ceases in his position, whether due to resignation or otherwise, prior to the end of his mandate, he must explain the reasons in a letter to be sent to all Board members. Without prejudice to said removal being reported as a significant event, a report must be given on the reason for the removal in the Annual Corporate Governance Report .

C.1.22 Section revoked.

C.1.23 Are qualified majorities, other than those prescribed by law, required for any type of decisions?

Yes

No X

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman.

Yes

No X

C.1.25 Indicate whether the Chairman has the casting vote.

Yes X

No

Matters where the chairman has the casting vote

In accordance with what is established in article 47 of the bylaws, "Resolutions shall be adopted by absolute majority of the Board Members who, present or represented, are in attendance at the meeting. In the event there is an equal number of votes, the Chairman, or whosoever substitutes him or her at the meeting, will cast the decisive vote. The provisions of this section shall be applicable without prejudice to those resolutions for which a qualified majority of the Board Members is required in accordance with these Corporate Bylaws or current laws in force."

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

Yes

No X

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors.

Yes

No X

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been stipulated regarding the categories that can be appointed proxy, other than any limitations imposed by law. If so, give brief details.

Article 45 of the Company Bylaws and article 20.2 of the Board of Directors' Regulations state that each director may grant a proxy to another member of the Board of Directors. Proxies shall be granted in writing and specifically for each Board Meeting. No director may hold more than three proxies, with the exception of the Chairman, to whom this limit shall not apply, although he may not represent the majority of the Board of Directors. Non-Executive Directors may only delegate their proxy to another non-executive.

C.1.29 Indicate the number of Board meetings held during the year and how many times the board has met without the chairman in attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	12
Number of board meetings held in the absence of the chairman	0

If the chairman is the executive director, indicate the number of board meetings held in the absence and without representation on behalf of any executive director and chaired by the coordinating director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Committee	Number of meetings
Audit and Compliance Committee	11
Appointments and Remuneration Committee	8
Executive Committee	0

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings attended by all directors	12
% of attendances of the total votes cast during the year	100.00%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes X

No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorization for issue by the board.

Name	Position
MR. JOSE DAMIAN BOGAS GALVEZ	CHIEF EXECUTIVE OFFICER
MR. PAOLO BONDI	GENERAL MANAGER - ADMINISTRATION, FINANCE AND CONTROL

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The main function of the Audit and Compliance Committee is to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the independence of the auditor and the efficiency of internal risk control and management systems, in addition to informing the Board of Directors of operations with related parties.

The Audit and Compliance Committee, in terms of the process of creating economic-financial and non-financial information, has the following duties:

- To monitor the preparation and the presentation of the Company's required financial information and, where appropriate, the Group, and submit recommendations or proposals to the Board of Directors, with a view to safeguarding its integrity.

- Regularly revise, analyse and comment financial statements and other relevant non-financial information with management, internal auditing, the external auditor, or, as applicable, an audit firm.

- Assess, considering the different sources of information available, whether the Company has correctly applied accounting policies and use its own judgement to reach a conclusion.

- Assess, considering the different sources of information available, whether the Company has correctly applied accounting policies and use its own judgement to reach a conclusion.

- Inform the Board of Directors on the veracity, integrity and reliability of regulated financial information that, given its status as a listed company, the Company must publish on a periodic basis:

- a) annual financial report that covers financial statements and separate management reports for the Company and the consolidated Group, revised by the auditor.

- b) half-yearly financial report on the first six months of the year, that covers the condensed financial statements and the separate interim management reports for the Company and the consolidated Group.

- c) interim statements concerning the first and third quarters of the year, containing an explanation of the significant events and operations that have occurred during the period between the start of the financial year and the end date of each quarter, in addition to a general statement on the financial position and results of the Company and its consolidated Group.

- Monitor the efficiency of the internal control of the Company's financial information, including the receipt of reports from those responsible for internal control and internal auditing and reaching a conclusion on the reliability and feasibility of the system, informing the Board of Directors accordingly, and discussing significant weaknesses in the internal control system detected during the audit with the External Auditor. To this end, and as applicable, the Audit and Compliance Committee may submit recommendations or proposals to the Board of Directors, along with the corresponding follow-up period.

Likewise, the Audit and Compliance Committee, in terms of the account auditor:

- ensure that the remuneration of the External Auditor for his work does not compromise its quality or its independence, verifying the limits on the concentration of the auditor's business.

- oversee compliance with the audit agreement, regularly receiving information on the audit plan and results thereof from the External Auditor, in addition to any other aspects relating to the audit process.

To undertake its supervision functions, the Audit and Compliance Committee may perform a final assessment on the auditor's performance and how it has contributed to the quality of the audit and integrity of financial information.

If, having performed the auditor assessment, the Audit and Compliance Committee believes there are aspects that are cause for concern or unresolved in terms of the quality of the audit, the Committee shall assess the possibility of informing the Board of Directors and, if deemed appropriate, will inform supervisory authorities as applicable.

Throughout the process, and in compliance with the recommendation 42.2 d) of the Code of Good Governance for listed companies and the provisions of article 33 of the Board of Directors' Regulations, the Audit and Compliance Committee has an ongoing objective and professional relationship with the Company's accounts auditor, in respect of its independence, and agrees to provide all information said auditor may need in order to perform its tasks. For this purpose, in 2017, Ernst & Young, S.L. attended various meetings with the Audit and Compliance Committee to report on the following points:

- The Audit of the Consolidated Financial Statements of ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- The Audit of the Individual Financial Statements of ENDESA, S.A. for the year ended 31 December 2017, prepared in accordance with the Spanish General Chart of Accounts.
- The agreed procedures relating to information for the Internal Control over Financial Reporting ("ICFR") system.
- Limited review of the Financial Information of ENDESA, S.A. and Subsidiaries for the period ended 30 June 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union

- Under the audit plan, a report was issued on the new Audit Report for Consolidated Financial Statements (applicable in 2017), in accordance with the legal reforms introduced by the European Union, the new Spanish Audit Law, and International Audit Standards applied in Spain (IAS-ES), in addition to the new Additional Reporting requirements for the Audit and Compliance Committee.

C.1.33. Is the Secretary of the board also a Director?

Yes

No X

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
FRANCISCO BORJA ACHA BESGA	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Pursuant to Article 52 of the Bylaws and the Audit and Compliance Committee Regulations, the main task of the Audit and Compliance Committee (hereinafter, CAC) is to promote compliance with good corporate governance and ensure the transparency of all actions of the Company in the economic and financial area and external and compliance audits and internal audits and, therefore, it shall:

- Liaise with external auditors in order to receive information on all matters which may place at risk their independence, for examination by the Committee, and any others related to the procedures concerning the audit of the accounts and, when applicable, authorize services other than those prohibited, under the terms set out in the applicable regulations, on independence, as well as those communications as provided by account auditing laws and technical auditing standards.

- Supervise the efficiency of the Company's internal control, internal auditing and risk management systems, and also discuss, with the auditor, the significant weaknesses of the internal control system detected while performing the audit, all without compromising its independence. To this end, and as applicable, recommendations or proposals may be submitted to the Board of Directors, along with the corresponding follow-up period.

- Monitor the preparation and the presentation of the required financial information, and submit recommendations or proposals to the Board of Directors, with a view to safeguarding its integrity.

- Make recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the auditor of accounts, assuming responsibility for the selection process, as set out in the applicable regulations, and the terms of his or her engagement, and receive regular information from him or her on the progress and findings of the audit programme, besides preserving independence in the exercise of his or her duties.

In any case, the Audit and Compliance Committee shall also receive annually from the external auditors a statement of their independence vis-à-vis the Company and/or entities directly or indirectly related to the Company, as well as detailed and separate information on the additional services of any type rendered and the corresponding fees received from these entities by the external auditor or by persons or entities related to him or her, in accordance with the provisions of audit regulations. Furthermore, as much information as possible should be sought from the Administration, Finance and Control Department, the Internal Audit Department and the auditor himself in terms of the independence of the auditor of accounts.

Moreover, there is no relationship other than that derived from professional activities with financial analysts, investment banks and credit rating agencies.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes

No X

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes X

No

	Company	Group	Total
Amount of non-audit work (in thousands €)	757	679	1,436
Amount of non-audit work as a % of the total amount billed by the audit firm	29.94%	42.20%	34.71%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes

No X

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	7	7
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	18.92%	23.33%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes X

No

Details of the procedure
Article 29 of the Board of Directors' Regulations governs the right to advice and information: The Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advising required in relation to any matter. The right to information extends to investees. The request will be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer. Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for such explanations as it sees fit. Said request shall be made by the Chairman through the Board Secretary and shall be conveyed by the Chief Executive Officer.

The majority of the Directors and the Coordinating Director may make proposals to the Board regarding the engagement, at the Company's expense, of such legal, accounting, technical, financial, commercial or other advisers as they consider necessary in order to assist them in performing their duties as related to specific problems of a certain importance and complexity related to the performance of their work.

The above proposal must be notified to the Company Chairman through the Board Secretary and will be conveyed by the Chief Executive Officer. The Board may refuse to approve financing for the advisory services referred to in the preceding paragraph on the grounds that they are not necessary for the performance of the functions entrusted, that their amount is disproportionate to the importance of the problem, or if it considers that such technical assistance could be adequately provided by Company personnel.

The Company shall establish an orientation programme which shall provide new Directors with speedy and sufficient knowledge of the Company, as well as of its rules of corporate governance. In addition, it shall also offer Directors knowledge recycling programmes when circumstances so advise.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes X

No

Details of the procedure

The Board of Directors' Regulations stipulate that the call to meeting of the Board shall be made with the required notice, at least 48 hours before the date set for the meeting, to each of the directors and shall include the agenda, clearly identifying the items on which the Board of Directors shall make a decision or adopt a resolution so that the directors may study or gather, in advance, the information required to make such decisions. Likewise, the minutes of the preceding meeting shall be attached.

Directors have an IT application to handle documents from Board meetings and Committee meetings online, facilitating the right to information and availability and access thereto.

In line with the Board of Directors Regulations, Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advising required in relation to any matter. The right to information extends to investees. The request will be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for such explanations as it sees fit. Said request shall be made by the Chairman through the Board Secretary and shall be conveyed by the Chief Executive Officer.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organization's name or reputation, tendering their resignation as the case may be.

Yes X

No

Details of rules

The Directors must present their resignation to the position and formalize their resignation when they incur in any of the assumptions established in article 12.2 of the Regulations of the Board of Directors and in particular "the Directors must place their position at the disposal of the Board of Directors when their stay in the Board of Directors Administration may harm the credit and reputation of the Company. "

Likewise, pursuant to article 28.bis of the Board of Directors' Regulations, Directors shall notify the Company, via the Board Secretary, of the start of any type of criminal investigation or proceedings, in Spain or abroad, in which they are involved, as well as of all developments related thereto. The Audit and Remuneration will analyze the information available, presented by the Director, via the Secretary, to determine whether this event could damage the Company's credit or reputation.

In cases where the criminal investigation or proceedings leads to a Director being indicted or tried for any of the crimes stated in company law, the Board of Directors shall examine the matter as quickly as possible and, after reporting to the Appointments and Remuneration Committee, decide on the course of action that is most suitable for the Company's interests. In the event that the criminal proceedings take place in a jurisdiction outside of Spain, similar concepts and legal categories to those set down in Spanish law shall be applied.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Corporate Enterprises Act (LSC).

Yes

No X

Indicate whether the Board of Directors has examined the matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

At 31 December 2017, ENDESA, S.A. has loans and other borrowings from banks and ENEL Finance International, N.V. of approximately 5,738 million Euros, with an outstanding debt of 3,738 million Euros, which might have to be repaid early in the event of a change of control over ENDESA, S.A. Furthermore, certain ENDESA subsidiaries that operate in the renewable energy business, and which are financed through project finance have financial debt of 159 million Euros, in addition to associated derivatives with a negative net market value of 12 million Euros, which might have to be settled early as a result of a change of control over ENDESA.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other operation.

Number of beneficiaries: 25

Type of beneficiary:

Executive directors, senior executives and

executives **Description of resolution:**

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

Furthermore, ENDESA's Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

The regime for these clauses is as follows.

Termination of the employment relationship:

-By mutual agreement: termination benefit equal to an amount from 1 to 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

-At the unilateral decision of the executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other cases for compensation for termination provided for in Royal Decree 1382/1985.

-As a result of termination by the Company: termination benefit equal to that described in the first point.

-At the decision of the Company based on the serious willful misconduct or negligence of the executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

Post-contractual non-competition clause: In the vast majority of contracts, senior executives are required not to engage in a business activity in competition with ENDESA for a period of two years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

Indicate whether these agreements must be reported to and/or authorized by the governing bodies of the company or its group.

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	Yes	No

	Yes	No
Are the shareholders informed of such clauses at the General Shareholders' Meeting?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors.

Audit and Compliance Committee

Name	Position	Category
IGNACIO GARRALDA RUIZ DE VELASCO	CHAIRMAN	Independent
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
HELENA REVOREDO DELVECCHIO	MEMBER	Independent
FRANCISCO DE LACERDA	MEMBER	Independent
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

The Audit and Compliance Committee, hereinafter CAC, will comprise a minimum of three and a maximum of six members of the Board of Directors. It shall be exclusively comprised of non-executive directors, the majority of which should be independent directors. Members of the CAC shall serve a term of office of four years and they may be re-elected for periods of like duration. The appointment of members of the CAC shall be based on their knowledge and experience in accounting, auditing, finance, internal control and risk management, in addition to appropriate training in corporate governance and corporate social responsibility. As a whole, members of the Committee shall have relevant technical knowledge in terms of the electricity and gas industry to which the Company belongs.

The Chairman of the Audit and Compliance Committee shall be appointed by the Board of Directors from the independent directors sitting on the Committee, bearing in mind their knowledge and experience in accounting, auditing or risk management. The Chairman must be substituted every four years and may be re-elected after one year after his vacating office has lapsed. The CAC will meet as often as convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors. Committee meetings will be validly assembled when the majority of the Committee members attend in person or by proxy. Resolutions must be adopted with the favorable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman will have the casting vote.

The Secretary of the Committee shall be the same as the Secretary of the Board of Directors who will draft the minutes of the resolutions passed thereat and the Board will be informed of these resolutions.

The main functions of the Committee shall be to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the selection, appointment and independence of the auditor and the efficiency of internal risk control and management systems, oversee internal audit services, supervise the communication strategy and relationship with shareholders and investors, oversee compliance with corporate governance rules, revise the corporate social responsibility policy and monitor the corresponding strategy and practices, in addition to informing the Board of Directors of operations with related parties. These duties will be deemed to be without limitation and without prejudice to such other duties by law and as may be entrusted to the Committee by the Board of Directors.

The most important actions undertaken by the Committee in 2017 were to inform the Board on the Company's financial information, supervise the internal risk control and management systems, inform the Board on the change to internal regulations and action plans to improve corporate governance practices, in line with the content of the CNMV Guide on audit committees at public-interest entities, obtain the "Criminal Risk Prevention Model" certificate, approve Endesa's criminal and anti-bribery regulatory compliance policy, information on the disclosure of non-financial information and information to the Board in terms of operations with related parties, amongst others.

Identify the director who is a member of the Audit Committee and has been appointed in consideration of his or her knowledge and experience in the area of accounting, auditing or both an report on the number of years that the Chairman of this committee has held the position.

Name of director with experience	IGNACIO GARRALDA RUIZ DE VELASCO
No. of years chairman in role	1

Appointments and Remuneration Committee

Name	Position	Category
MIQUEL ROCA JUNYENT	CHAIRMAN	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
HELENA REVOREDO DELVECCHIO	MEMBER	Independent
FRANCISCO DE LACERDA	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

The Appointments and Remuneration Committee, hereinafter CNR, shall be formed by a minimum of three and a maximum of six non-executive members of the Board of Directors, at least two of whom must be independent directors.

The Chairman of the Appointments and Remuneration Committee shall be appointed by the Board of Directors from among its independent Directors.

The CNR will meet as often as convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors. Committee meetings will be validly assembled when the majority of the Committee members attend in person or by proxy.

Resolutions must be adopted with the favorable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman will have the casting vote.

The CNR may contract external consultancy services. The Secretary of the Committee shall be that of the Board of Directors who will draft the minutes of the resolutions passed thereat and the Board will be informed of these resolutions.

The Appointments and Compensation Committee shall have the following duties:

Assess the capacities, knowledge and experience required on the Board of Directors in order to submit proposals to the Board on the selection, appointment, re-election and removal of members of the Board; propose members to sit on the Executive Committee and each of the Committees and report on the proposed appointment and removal of senior managers, the basic conditions of their contracts and payment; propose the adoption of remuneration systems for senior management in addition to proposing the Director remuneration policy to the Board of Directors, in addition to the individual remuneration and other contract terms for Executive Directors; establish a gender representation target for the Board of Directors and examine and organize the succession plan for the Chairman of the Board of Directors and the CEO, amongst others.

The main action taken by the Committee in 2017 was as follows: report on the proposed appointment of Ms. Grieco as a Proprietary Director; the re-election of Independent Directors; the creation of the E-Solutions Department and the associated appointment; remuneration for the Executive Management Committee; variable remuneration of senior management; the annual report on Director remuneration; compliance with the policy for selecting candidates for the office of director and amendments thereto; the evaluation of the Committee and Board for 2016 and the Annual Committee Activity Report, amongst others.

Executive Committee

Name	Position	Category
MR. BORJA PRADO EULATE	CHAIRMAN	Executive
JOSE DAMIAN BOGAS GALVEZ	MEMBER	Executive
FRANCESCO STARACE	MEMBER	Proprietary
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of executive directors	28.57%
% of proprietary directors	28.57%
% of independent directors	42.86%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

Article 22 of the Board of Directors' Regulations, which regulates the composition and operating system of the Executive Committee, in the first place, establishes its optional nature, and also establishes the following organizational and operational rules:

The Executive Committee, if any, shall consist of a minimum of five and a maximum of seven Directors, including the Chairman and the Chief Executive Officer. The Chairman of the Board of Directors will chair the Executive Committee and the Secretary of the Board of Directors will act as such on the Executive Committee. The rules on substituting such officers shall be as stipulated for the Board of Directors.

The composition of the Executive Committee shall reasonably reflect the structure of the Board. The Executive Committee shall have the power to adopt resolutions related to the powers delegated thereto by the Board as well as all other resolutions which, in the event of emergency, may need to be adopted.

Members of the Executive Committee shall be appointed by proposal of the Appointments and Compensation Committee and shall require the favorable vote of at least two thirds of the Board members.

Resolutions of the Executive Committee on matters for which it has been delegated powers by the Board shall be implemented as soon as they have been adopted. However, in cases where, in the opinion of the Chairman or of the majority of the members of the Executive Committee, the importance of the matter so advises, the resolutions of the Executive Committee will be submitted for subsequent ratification by the Board.

The Secretary of the Executive Committee shall be that of the Board of Directors and will draft minutes of the resolutions passed and inform the Board of the same. The minutes must be available to all Board members. It must be highlighted that the Executive Committee did not meet in 2017.

Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different categories of Director.

Yes X

No

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	1	16.65%	1	16.65%	1	16.65%	1	20.00%
Appointments and Remuneration Committee	1	16.65%	1	16.65%	1	20.00%		
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is regulated by the Bylaws and the Board of Directors' Regulations and the Audit and Compliance Committee Regulations. These regulations can be consulted on the Company's website www.endesa.com.

The Audit and Compliance Committee Regulations were amended in December 2017, in line with the new EU and Spanish account audit regulations, specifically Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and the approval of the "Technical Guide 3/2017: on audit committees at public-interest entities" (the "Technical Guide") by the Spanish National Securities Market Commission on 27 June 2017.

The main developments are outlined below:

- Changes concerning the knowledge and experience required from members of the Board (both individually and the Committee as a whole) have been included, and an orientation programme set up for new members, in addition to a permanent training plan.
- Express reference to the Committee's annual working plan has been introduced, which must address the specific objectives and an annual calendar of meetings.
- A minimum of 4 meetings must be held each year and at least one to coincide with each publication date of financial information.
- More detailed regulations have been introduced on the attendance of the internal and external auditor, with at least part of meetings with these individuals held without the Company's management being present, and offering the internal auditor direct, effective access to the Committee.

- The wording of articles on the Committee's functions has been changed to adapt their content to the provisions of Spanish and EU regulations on account auditing, Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and, primarily, the Technical Guide of the Spanish National Securities Market Commission, in addition to the actual organizational and functional structure of the Company, in a way that is consistent with the proposed amendment of the Board of Directors' Regulations, which are also subject to Board approval.
 - A clause has been introduced in the Regulations that an opinion must be sought from other directors as part of the assessment of the Audit and Compliance Committee.
- The Audit Committee draws up, inter alia, the annual activity report for the Audit and Compliance Committee.

APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com. The Appointments and Remuneration Committee draws up an Activity Report each year.

EXECUTIVE COMMITTEE

The Executive Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com.

The Executive Committee did not meet in 2017.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedure for reporting the approval of related-party transactions

The procedure for approving operations with related parties is set out in Endesa's Operations with Related Parties Regulations. Procedure for requesting approval for operations linked to Directors:

1. Endesa Directors must request approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that they or their related parties intend to perform with Endesa or with any company in the Endesa Group, prior to performing it.
2. When the Secretary is also a Director and requests authorization, the request shall be forwarded to the Chairman of the Board of Directors.
3. The request shall state: (a) the Director or person related to the Director that is going to undertake the operation and the nature of the relationship. (b) The Endesa Group company with whom the operation will be undertaken. (c) The purpose, the value and the main terms and conditions of the operation. (d) The nature of the operation. (e) Any other information or circumstances that may be relevant in terms of assessing the operation.
4. Notwithstanding the provisions of section 1 above, senior managers who are aware of any potential operation linked to Directors or persons related thereto, shall inform General Secretary and the Board of Directors, and the General Manager of Administration, Finance and Control at Endesa.

Procedure for requesting approval for operations linked to significant shareholders:

1. Operations that Endesa or Endesa Group companies undertake with significant shareholders or persons related thereto must be approved by the Board of Directors, following a report from the Audit and Compliance Committee.
2. Endesa Group Senior Management must request approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that Endesa or any company in the Endesa Group intends to perform with significant shareholders or their related parties. Likewise, the Senior Management must inform the General Manager of Administration, Finance and Control at Endesa of this request.
3. The request shall state: (a) the significant shareholder or person related to the significant shareholder that is going to undertake the operation and the nature of the relationship. (b) The Endesa Group company with whom the operation will be undertaken. (c) The purpose, the value and the main terms and conditions of the operation. (d) The nature of the operation. (e) Any other information or circumstances that may be relevant in terms of assessing the operation.

Approval of the operation by the Board:

1. When the operation must be approved by the Board of Directors, the General Secretary and the Board of Directors shall ask the Audit and Compliance Committee to issue the corresponding report, submitting the information gathered to this effect.
2. The Audit and Compliance Committee will analyse this information and issue a report on the operation, for which purpose it may request any information it deems fit through the General Secretary and the Board of Directors. In accordance with the provisions of the Board of Directors' Regulations, the Audit and Compliance Committee may use any external advisors it deems fit to issue this report.
3. The Audit and Compliance Committee report will be submitted to the Board of Directors so that it may rule as appropriate in relation to authorising the transaction.
4. Under urgent circumstances for which due justification is provided, the CEO may approve the operation, which shall be ratified at the first Board meeting held after the decision is adopted.

Obligation of Directors to abstain from participating in decision-making:

Directors who are going to perform the operation or related to the party who is going to perform it or Directors who are also the significant shareholder affected or is related to the latter, and also any Directors who have been appointed at the request of the aforementioned significant shareholder or who, for any other reason, are affected by a conflict of interests must abstain from participating in the deliberation and voting on the agreement in question, so that the independence of the Directors approving the related-party operation is guaranteed in relation to the Directors affected by it.

In terms of related-party operations with Directors and those with significant shareholders, approval shall not required from the Board of Directors (although they must be reported to the General Secretary and Board of Directors) for related-party operations with Directors and related parties that also satisfy the following requirements: They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; They go through at market prices, generally set by the person supplying the goods or services; They are transactions of little relevance, being understood to be those whose information is not required to express a faithful rendering of Endesa assets, financial status and results. In any case, they may only be understood to be of little relevance if their amount is no more than one per cent of the Endesa's annual revenues.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (In thousand Euros)
ENEL IBERIA SRL	ASOCIACIÓN NUCLEAR ASCÓ-VANDELLÓS II	Contractual	Services rendered	53
ENEL IBERIA SRL	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Rendering of services	170
ENEL IBERIA SRL	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Property, plant and equipment purchases	9
ENEL IBERIA SRL	ENDESA FINANCIACIÓN FILIALES, S.A.	Contractual	Services rendered	72
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Operating lease agreements	830
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Rendering of services	335
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Property, plant and equipment purchases	246,000
ENEL IBERIA SRL	ENDESA, S.A.	Contractual	Dividends and other distributions	989,347
ENEL IBERIA SRL	ENDESA, S.A.	Contractual	Management contracts	940
ENEL, S.P.A.	DISTRIBUIDORA ELÉCTRICA PUERTO DE LA CRUZ, S.A.	Contractual	Management contracts	13
ENEL, S.P.A.	EASA I	Contractual	Management contracts	16
ENEL, S.P.A.	EMPRESA CARBONÍFERA DEL SUR, S.A.	Contractual	Management contracts	25
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Management contracts	5,531
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Services rendered	1,759
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Purchase of finished goods and work in progress	85,478
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Rendering of services	131
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Property, plant and equipment purchases	1,785
ENEL, S.P.A.	ENDESA ENERGÍA XXI, S.L.	Contractual	Management contracts	70
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Management contracts	3,188
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Finance Leases	106
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Services rendered	108
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Purchase of finished goods and work in	212,691
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Rendering of services	446
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Sale of finished goods and work in	39,424
ENEL, S.P.A.	ENDESA GENERACIÓN PORTUGAL, S.A.	Contractual	Management contracts	26

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (In thousand Euros)
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Purchase commitments	64,955
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Interest charged	869
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Management contracts	1,804
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Services rendered	1,720
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Purchase of finished goods and work in	33,842
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Interest charged	826
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Other	83
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Other	242,370
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Interest paid	494
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Rendering of services	1,522
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Sale of finished goods and work in	2,900
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Property, plant and equipment	103,911
ENEL, S.P.A.	ENDESA INGENIERÍA, S.L.	Contractual	Management contracts	50
ENEL, S.P.A.	ENDESA INGENIERÍA, S.L.	Contractual	Rendering of services	610
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Management contracts	4
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Services rendered	27,500
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Rendering of services	97
ENEL, S.P.A.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L.	Contractual	Management contracts	13
ENEL, S.P.A.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L.	Contractual	Services rendered	272
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Management contracts	38
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Services rendered	745
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Rendering of services	34
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Financing agreements: loans	3,000,000
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Interest charged	92,175
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Management contracts	4,289
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Services rendered	6,763
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Partnership agreements	629
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Rendering of services	2,309
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Property, plant and equipment	1,415
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Management contracts	2,336
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Services rendered	846
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Rendering of services	8,759
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Interest paid	431
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Other	115
ENEL, S.P.A.	GENGAS Y ELECTRICIDAD GENERACIÓN, S.A.	Contractual	Management contracts	2,663
ENEL, S.P.A.	GENGAS Y ELECTRICIDAD GENERACIÓN, S.A.	Contractual	Rendering of services	20
ENEL, S.P.A.	INTERNATIONAL ENDESA B.V.	Contractual	Services rendered	120
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Interest charged	0
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Guarantees	114.000
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA	Contractual	Purchase commitments	52.700

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

D.5 Indicate the amount from related-party transactions. 0 (thousands of Euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Directors shall take the necessary measures to avoid becoming involved in situations in which their interests, whether personally or on behalf of another party, may conflict with the corporate interest and their duties before the Company.

Specifically, under the duty to avoid situations of conflicts of interests, Directors shall be obliged to abstain from:

- Undertaking transactions with the Company, with the exception of ordinary operations made under standard conditions for clients and that are of limited relevance, understood to be those whose information is not required to express a faithful rendering of the Company's equity, financial position and income.
- Use the Company's name or rely on their status as Directors to unduly influence operations for their own account.
- Use corporate assets, including confidential information belonging to the company, for private purposes.
- Take advantage of the Company's business opportunities.
- Obtain payments or benefits from third parties other than the Company and its Group associated with his/her position, with the exception of hospitality.
- Perform activities on their own account or the account of others that represent effective competition, whether currently or potentially, with the Company or that in any other way place them in a permanent conflict with the Company's interests.

Directors must inform the Board of Directors, through the General Secretary, of any direct or indirect conflict of interest between them and the Company. Directors shall abstain from participating in the deliberation and voting on agreements or decisions in which he/she or a related person has a direct or indirect conflict of interests. Agreements or decisions that affect their capacity as Directors, such as their appointment to or removal from roles on the Board of Directors, its Committees and the Executive Committee, or other similar agreements or decisions shall be excluded from the aforementioned abstention.

In any case, conflicts of interests in which Company Directors find themselves shall be reported on pursuant to the law in force.

Directors shall perform their duties as a faithful representative, employing good faith and acting in the best interests of the Company, interpreted with full independence, and they will ensure at all times that the interests of the shareholders as a whole, from whom their authority originates and to whom they are accountable, are best defended and protected.

The Directors, by virtue of their appointment, are obliged, in particular, to:

- Refrain from using their powers for any other purpose than for which they were originally granted.
- Perform their functions under the principle of personal responsibility with complete freedom and independence in terms of instructions from and links to third parties.
- Comply with the general principles and criteria of conduct contained in the Company's Code of Ethics.

Furthermore, Endesa has a Conflict of interests, exclusive service and commercial competition protocol, the purpose of which is to regulate the actions that Endesa employees must take in terms of exclusive service and commercial competition, and establish the rules to be applied in terms of conducts or situations that represent a direct or indirect potential conflict between the Company's interest and personal interests of any of its employees.

D.7 Is more than one group company listed in Spain?

Yes

No X

Identify the listed subsidiaries in Spain.

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve possible conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the risk management system in place at the company, including tax risk.

The Risk Management and Control Policy, approved by the Board of Directors and applied at Endesa and all subsidiaries, involves guiding and directing all strategic, organizational and operating activities to enable the Board of Directors to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximizing the Company's profit, maintaining or increasing its assets and equity and the certainty of this occurring above certain levels, preventing future uncertain events from undermining profit targets.

The Risk Management and Control Policy defines ENDESA's risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from the consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and the appropriate use of capital.

The risk management and control model is based partly on the ongoing study of the risk profile, applying current best practices in the electricity sector or benchmark practices in risk management, criteria for standardizing measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, always respecting an appropriate balance between the risk assumed and the targets set by the Board of Directors.

The comprehensive risk management process consists of the identification, measurement, analysis and monitoring of different risks, together with their monitoring and control over time, based on the following procedures:

- Identification. The purpose of identifying risks is to maintain a prioritized and updated database of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- Control. The aim of the risk control is to guarantee that the risk assumed by ENDESA is in line with the targets set, in the last instance, by the Board of Directors of ENDESA, S.A.
- Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

This process sets out to secure an overview of risk to assess and priorities risks. It covers the main financial and non-financial risks to which the Company is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks identified and establishing regular reviews. To boost these initiatives, Endesa's Board of Directors has also approved a Tax Risk Management and Control Policy to guide and direct strategic, organizational and operating activities to enable Tax Affairs employees and the different departments at the organization whose work involves the company's taxation, achieving the objectives set as part of the Company's Tax Strategy in terms of tax risk management and control.

E.2 Identify the bodies responsible for preparing and implementing the risk management system in place at the company, including tax risk.

Board of Directors. Responsible for determining the Risk Management and Control Policy, including tax issues, the supervision of the internal information and control systems and the setting the Company's acceptable risk level at all times.

Audit and Compliance Committee. Its duties include:

1. Informing the Board of Directors of the Risk Management and Control Policy, including tax risks, for approval in addition to any amendments, ensuring that at least the following aspects are identified:

a)The different types of risk, financial and non-financial, (inter alia, operational, technological, legal, social, environmental, political and reputational) that the Company is exposed to, including among financial or economic risks, contingent liabilities and other risks not on the balance sheet.

b)The determination of the risk level the Company sees as acceptable.

c)Measures in place to mitigate the impact of risk events should they occur.

d)The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

2. Monitor the effectiveness of the Company's internal controls and risk management systems. To this end, the Audit and Compliance Committee shall be responsible for the direct supervision of Endesa's Risk Committee, which is internally responsible for the Risk Management and Control Policy. In this connection, it shall perform a periodic assessment of the internal Risk Management and Control function's performance.

3. Assess all aspects related to the Company's non-financial risks each year, including operating, technological, legal, social, environmental, political and reputational risks.

Risk committee. The body responsible for enforcing the Risk Management and Control Policy, supported by the internal procedures of the different business lines and corporate areas. Its main functions are as follows:

- Regularly provide the Board of Directors with a comprehensive view of current and foreseeable risk exposure.
 - Ensure that senior management participates in strategic risk management and control decisions.
 - Ensure coordination between the risk management unit and units responsible for its control and compliance with the risk management and control policy and its internal procedures.
 - Ensure the proper operation of the risk control and management systems and, in particular, ensure that all important risks regarding its management are appropriately identified, managed and quantified.
 - Actively participate in drawing up the risk strategy and in important decisions regarding its management.
 - Ensure that the risk control and management systems appropriately mitigate risk as part of the risk control and management policy.
- The following functions are delegated to Risk Control by the Risk Committee in terms of managing and controlling risks at the company:
- Define the procedures and standards that make it possible to coordinate the company's integrated risk control system;
 - Produce the documentation that makes it possible to report the company's risk exposure or any relevant risk management or control event to the Risk Committee or any other decision-making body;
 - Ensure the adequate identification, definition, management and quantification of all risks that affect the company in a homogenous and periodic manner.
 - Coordinate periodic assessments that make it possible to ensure the correct functioning of risk management and control systems.

Internal Control. Responsible for the implementation, update and monitoring of the system for internal control of financial reporting (ICFR), establishing the controls and procedures, as it sees fit, for ensuring the quality of the financial information that Endesa makes public.

Business lines and corporate areas. All areas at the company, including the Tax Department, are directly involved in risk management. Its main responsibilities are:

- Considering risk management as an integrated part of its undertakings each day, having implemented the risk management framework in a consistent and effective manner.
- Ensuring that risk policies, risk management processes and internal controls associated with this line are implemented effectively pursuant to the principles and limits established.
- Comprehensively identifying both risks that affect business performance and those that arise as part of its undertakings.
- Supporting Risk Control in risk measurement and reporting tasks.
- Ensuring that the segregation of functions established in the risk management framework is adhered to in such a way that it is guaranteed that effective controls are in place and their implementation does not create unnecessary inefficiencies.

Internal Audit. Continuously supervise the structure and functionality of the Internal Risk Management and Control System (SCIGR) and internally or externally validate the risk model.

E.3 Indicate the main risks, including tax risk, which may prevent the company from achieving its targets.

Endesa is exposed to the following risk factors when carrying out its activities, as described in the Risk Management and Control Policy:

- Financial or market risk: risk of fluctuations in prices and other market variables leading to changes in enterprise value or profits.

These risks are classified as:

- Interest rate risk
 - Currency risk
 - Commodity risk
 - Liquidity and financial risk
 - Counterparty risk
- Business risk: this type of risk includes:
- Operational risk or industrial risk
 - Environmental risk or Legal and tax risk
 - Reputational risk
 - Strategic and regulatory risk

E.4 Identify if the company has a risk tolerance level, including tax risk.

The businesses, corporate areas, and companies that form part of the Business Group establish the risk management controls required to ensure that transactions are performed in the markets in accordance with ENDESA's policies, principles and procedures and, in any case, respecting the following limits and rules:

- Alignment of the risk levels with the objectives set by the Board of Directors.
- Optimization of risk control and management from a consolidated perspective, giving the latter priority over individual management of each of the risk.
- Continual assessment of hedging, transference and mitigation mechanisms to guarantee their suitability and the adoption of the best market practices.
- Continuous studying of laws, rules, current regulations, jurisprudence and legal doctrine, including tax laws, to guarantee that transactions are made in accordance with the principles that regulate the activity.
- Respect for and compliance with internal regulations, with special focus on Corporate Governance, the Code of Ethics, the Zero Tolerance Plan Against Corruption and the General Principles for Criminal Risk Prevention.
- Duty to preserve the health and safety of the people who work for and at ENDESA.
- Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental effects of ENDESA's activities.
- Responsible optimization of the use of available resources, in order to provide profitability for our shareholders as part of a relationship based on the principles of loyalty and transparency.
- ENDESA's financial policies contemplate the active management of financial risk related to the ordinary operation of the Company. In general, speculative positions are restricted.
- In terms of tax, the risk tolerance level is defined in the company's Fiscal Strategy approved by the Board of Directors and reflected in the Tax Risk Management and Control Policy. The Company is committed to satisfying current tax regulations, employing a reasonable interpretation thereof at all times and trying to avoid, following said interpretation, undue tax costs and inefficiencies for the company.

The objective of risk control is achieved through the following steps:

- Definition of quantitative references that reflect ENDESA's strategy and its predisposition to risk (limits) and the monitoring thereof.
- Identification and consideration of possible breaches of limits.
- Establishment of actions, processes and information flows needed to allow for periodic review of limits in order to take advantage of specific opportunities arising from each activity.
- If risk limits are exceeded, the appropriate corrective measures are suggested, using hedging, transfer (insurance) and mitigation mechanisms for manageable risk and, in the case of non-manageable risk, the contingency plans are assessed or the activity is halted.

E.5 Identify any risks, including tax risk, which have occurred during the year.

The risks that occurred during the year were inherent to the activity performed, such as constant exposure to regulatory, interest-rate, exchange-rate, volatility of fuel, credit or counterparty risk.

These risks remained within normal limits in proportion to the Company's activity, and the established control systems worked adequately. In terms of cyber-security risk, the response to attacks suffered by ENDESA in 2017 was adequate and their impact was of little relevance.

E.6 Explain the response and monitoring plans for the main risks the Company is exposed to, including tax risk.

ENDESA has a risk identification system that allows regular assessment of the nature and magnitude of the risks that the organization is facing. The development of an integrated risk control and management process and, as part of it, a structured and standardized reporting system, has helped synergies to be obtained for the consolidation and comprehensive processing of risks and has allowed key indicators to be developed to detect potential risks and send early alerts. The comprehensive risk management process implemented in the Company establishes, inter alia:

- Achieving a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.
- Contracting currency swaps and exchange rate insurance to mitigate currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.
- Exposure to fluctuations in commodity prices is managed long term through the diversification of contracts, management of the procurements portfolio by tying it to indexes that perform in a similar or comparable way to final electricity prices (generation) or selling prices (supply), and through periodic contractual renegotiation clauses, the objective of which is to maintain the economic equilibrium of procurements.
- In the short term, liquidity risk is mitigated by ENDESA by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.
- ENDESA's liquidity policy consists of arranging committed long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.
- In addition, ENDESA develops the centralized cash function, drawing up cash forecasts to ensure it has sufficient cash to meet operational needs.
- ENDESA performs very detailed monitoring of the credit risk and takes a series of precautions that include, inter alia: Risk analysis, assessment and monitoring of counterparty credit quality; Establishing contractual clauses, requesting collateral, requesting guarantees, or taking out insurance. - Exhaustive review of the level of counterparty exposure; Diversification of counterparties
- There is one single defined environmental policy for all of ENDESA.
- Prevention and protection strategies are in place to mitigate risks of breakdown or accidents that temporarily interrupt the operation of the plants.
- In order to transfer certain risks, mitigating the effects if they occur, ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business – including, inter alia, damages to the Company itself, general civil liability, environmental and nuclear power plant liability.
- ENDESA manages most of the tax obligations for ENDESA and its controlled companies in a centralized fashion. Therefore, it has developed procedures for each of the taxes that it manages. Besides describing the processes for properly paying taxes and performing quality control regarding taxes paid, these processes include the appointment of a person responsible for the process and a person responsible for supervising it.

- Due to the existence of different interpretations of applicable regulations, ENDESA relies on experts in the area to analyze them and it also relies on prestigious legal and tax advisors who collaborate in the interpretation of these regulations, which allows ENDESA to adapt its actions to legal requirements.
- In order to have thorough, reliable knowledge of the status of audience opinion, ENDESA has social research tools used regularly and exclusively for the Company, and also information from studies of the same nature that are available to the public.
- In terms of the supervision of tax risk and the corresponding response plans, the unit that handles tax affairs periodically identifies risks associated with the tax function, classifies them depending on the risk factor in question and the type of risk, before performing an economic assessment. Subsequently, they are managed accordingly with a view to eliminating or reducing the risk, and only assumed when it is considered that there are solid arguments to defend the stance taken. Risks are reported to the Risk Control Unit on a periodic basis for their inclusion in the company's Risk Map.
- To combat the risk of cyber-security, a strategy has been deployed that is structured around a management framework aligned with international standards and government incentives that make it possible to protect information, industrial assets and emerging technologies.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

Board of Directors

The Board of Directors of ENDESA is ultimately responsible for the existence and regular updating of an adequate and effective ICFR system. As stipulated in the Board of Directors' Regulations, this duty has been delegated in the Audit and Compliance Committee. The supervision of internal information and control systems is role of assigned to the Board of Directors that cannot be delegated and the Audit and Compliance Committee, as set out in Spain's Corporate Enterprises Act, is responsible for overseeing the efficiency of the Company's internal controls, in addition to other responsibilities.

Audit and Compliance Committee

ENDESA's Audit and Compliance Committee Regulations state that the main task of this Committee is to promote good corporate governance and ensure the transparency of all actions of the ENDESA in the economic and financial, external audit, compliance and internet audit areas.

The committee is entrusted with supervising the preparation and presentation of regulatory financial information and monitoring the efficacy of ENDESA's ICFR and risk management systems, as well as discussing with the auditors or audit firms any significant weaknesses detected in the internal control system during the course of the audit work.

It is also responsible for supervising internal audit services, monitoring its independence and efficacy, proposing the selection, appointment, reappointment and removal of the head of internal audit and receiving regular report-backs on its activities, and verifying that senior management are acting on the findings and recommendations of its reports.

Audit and Compliance Committee members are appointed in light of their knowledge and experience of accounting, audit or risk management.

Transparency Committee

In 2004, ENDESA set up a Transparency Committee, presided by the Chief Executive Officer and consisting of senior executives, including all members of the Executive Management Committee together with other members of ENDESA management directly involved in the preparation, certification and disclosure of financial information.

This Committee's main purpose is to ensure compliance with and the correct application of general financial reporting principles (confidentiality, transparency, consistency and responsibility) by evaluating the events, transaction reports and other matters of relevance disclosed and determining the manner and deadlines for making these disclosures.

The duties of the Transparency Committee also include assessing the findings submitted to it by ENDESA's Administration, Finance and Control Department, based on the report prepared by ENDESA's Internal Control Unit with respect to compliance with and the effectiveness of the internal financial information controls and the internal controls and procedures concerning market disclosures, taking corrective and/or preventive action and reporting to the Audit and Compliance Committee of the Board of Directors in this respect.

Administration, Finance and Control Department

ENDESA's Administration, Finance and Control Department, n supporting the Transparency Committee, performs the following ICFR-related duties:

- Proposing financial reporting policies to the Transparency Committee for approval.
- Evaluating the effectiveness of the controls in place and how well they work, including any breaches of approved internal control policies.

Internal Control Unit

Within ENDESA's Administration, Finance and Control Department, there is a dedicated ICFR Unit tasked with the following duties:

- Communicating approval of ICFR policies and procedures to ENDESA's various subsidiaries and business units.

- Maintaining, updating and making the ICFR model and the documentation associated with procedures and controls available to the company.
 - Defining the flow charts for certifying the evaluation of the effectiveness of the controls and procedures defined in the ICFR model.
 - Overseeing the process of certifying internal controls over financial reporting and the internal disclosure controls and procedures, and submitting periodical reports on its conclusions with respect to the system's effectiveness.
- All matters relating to internal control over financial reporting and the disclosure of financial information are regulated in the organizational procedure No. 5 "Internal Control over Financial Reporting", the purpose of which is to establish the operating principles and lines of responsibility for the establishment and maintenance of internal controls over financial reporting and internal financial information disclosure controls and procedures in order to ensure their reliability and to guarantee that reports, events, transactions and other material developments are disclosed in an adequate form and timeframe. The ICFR system is evaluated and certified every six months.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organizational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

Design of the organizational structure

The Board of Directors, through the CEO and the Appointments and Remuneration Committee (one of the Board's advisory committees), is responsible for the design and review of the organizational structure and for defining lines of responsibility and authority.

The CEO and the Appointments and Remuneration Committee establish the distribution of tasks and functions, ensuring adequate segregation of duties and coordination mechanisms among the various departments so that everything works as it should.

The Organizational and Human Resources Unit is tasked with designing, planning and disclosing the change management framework in the case of major organizational transformations, planning change programmes and the related resources and processes. It is also responsible for defining the guidelines for the Group's organizational structure and for relevant organizational changes. Lastly, the unit ensures the definition and implementation of the global job posts systems, evaluating the key professional functions and executive positions.

Corporate policy No. 26 "Organizational Guidelines" defines and establishes criteria for identifying, developing and implementing organizational guidelines, and also the evaluation and assessment of roles.

The various organizational guidelines are posted on ENDESA's Intranet and are available for viewing by all ENDESA employees.

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

Code of conduct - Regulatory framework for ethics and compliance

ENDESA has the following internal regulations on ethics and crime prevention:

Code of Ethics

ENDESA has a Board-endorsed Code of Ethics which itemizes the ethical commitments and duties to which the professionals working for ENDESA and its subsidiaries, be they Directors or staff, no matter their positions,

are bound in the course of managing these companies' business and corporate activities.

The Code of Ethics comprises:

- The general principles governing relations with stakeholders that define ENDESA's benchmark business values.
- The standards of conduct for dealing with all groups of stakeholders, enshrining the specific guidelines and rules which ENDESA professionals must adhere to in order to uphold the general principles and avoid unethical behavior.
- The Implementation Mechanisms, describing the organizational structure of the Code of Ethics environment, responsible for ensuring that all employees are aware of, understand and comply with the Code. The principles and provisions of ENDESA's Code of Ethics must be respected and complied with by the members of the Board of Directors, the Audit and Compliance Committee and other governing bodies of ENDESA and its subsidiaries, as well as these entities' executives, employees and any other professionals related to ENDESA via contractual relationships of any type, including those working for or with them on an occasional or temporary basis.

The Code's general principles include that of "Information transparency and integrity", which stipulates that "ENDESA's professionals must provide complete, transparent, comprehensible and accurate information such that when entering a relationship with the Company the implicated parties can take independent decisions that are informed with respect to the interests at stake, the alternatives and the relevant ramifications".

Zero Tolerance Plan Against Corruption

The Board-approved Zero Tolerance Plan Against Corruption requires all ENDESA employees to be honest, transparent and fair in the performance of their work. The same commitments are expected of its other stakeholders, i.e. people, groups and institutions that help ENDESA meet its objectives or that are involved in the activities it performs in order to achieve its goals. In compliance with Principle 10 of the Global Compact, of which ENDESA is a signatory, "Businesses should work against corruption in all its forms, including extortion and bribery", ENDESA expressly rejects all forms of corruption, direct and indirect, to which end it has an anti-corruption programme in place.

Criminal Risk Prevention Model

Endesa's Criminal Risk Prevention Model, in place since 1 January 2012, is a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the company, complying with the Spanish Criminal Code on criminal responsibility of legal persons.

According to current legislation, having adopted an appropriate and efficient prevention model, whose operation and supervision have been entrusted to a Company body with independent powers of initiative and control, could mean the Company being exempt from criminal responsibility with regard to a criminal offence.

The following protocols, which establish general criteria for action in different areas, form part of Endesa's crime prevention model:

- Conflict of interests protocol. Exclusive dedication and commercial competition.
 - Protocol for accepting presents, gifts and favours.
 - Protocol for dealing with public servants and the authorities.
- A 'whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organization, stating whether reports made through this channel are confidential.

Whistle-blowing channel

ENDESA has had an Ethics Channel in place since 2005. This is accessible via its corporate website and intranet to all employees, so that all stakeholders can report, securely and anonymously, any irregular, unethical or illegal conduct which has, in their opinion, occurred in the course of ENDESA's activities.

The procedure for using this channel ensures confidentiality, as all complaints and communications are managed by an independent external supplier.

In addition to this Channel, a number of other channels are available for submitting complaints. These are all routed to Internal Audit, in accordance with ENDESA's internal procedures.

Internal Audit is responsible for ensuring that all complaints received are processed correctly, considering them and acting independently of other company units. It has access to all company documents needed for the exercise of its functions. It also monitors the implementation of the recommendations included in its audit reports. Internal Audit reports to the Board of Directors through the Audit and Compliance Committee, which centralizes and channels significant complaints to the Board.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Training programmes

The Business Organization and Human Resources Department works together with the Administration, Finance and Control Department to prepare the training schedule for all staff involved in preparing the ENDESA's annual financial statements. This Plan includes ongoing updates on business trends and regulatory developments affecting the activities performed by the various ENDESA companies, specific IFRS skills courses and training regarding ICFR standards and developments.

In 2017, ENDESA's Administration, Finance and Control Department received 13,577 training hours, of which 32.37% were devoted to the acquisition, refreshment and recycling of financial skills and knowledge, addressing matters such as accounting and audit standards, internal controls, risk management and control and regulatory and business matters with which these professionals need to be familiar in order to properly draw up ENDESA's financial information. The rest of the training hours were earmarked to management skills, workplace health and safety matters and IT skills. Of these hours 11.83% were for language training and 31.72% for information technology.

In addition, whenever necessary, ENDESA provides specific training courses on financial reporting and control matters to staff outside the Administration, Finance and Control Department who are directly or indirectly involved in supplying information used in the financial reporting process.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

Since 2005, ENDESA has had a formally organized ICFR.

- The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

The financial reporting risk identification and maintenance process covers the following financial information objectives:

- Existence and occurrence.
- Integrity.
- Measurement/valuation.
- Presentation, disclosure and comparability.
- Rights and obligations

ENDESA's Internal Control Unit updates the ICFR relevant processes map to reflect any quantitative or qualitative change that may affect the internal control model.

The evaluation (in terms of probability and impact) of both inherent and residual risks is updated every time there is a change in processes or whenever a new company is included within the scope. This evaluation can result in the identification of new risks, which are mitigated by designing new controls or updating existing controls.

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

Defining the scope of consolidation

ENDESA keeps a corporate register, which is permanently updated, with information on all its shareholdings, whether direct or indirect, including all entities over which ENDESA has the power to exercise control, regardless of the legal structure giving rise to such control (so that this register also includes holding companies and special purpose vehicles).

The management and updating of this corporate register is governed by corporate protocol N.035, entitled "ENDESA Corporate Records Management".

ENDESA's scope of consolidation is determined on a monthly basis by the Administration, Finance and Control Department based on the information available in the corporate records and in accordance with the criteria stipulated by International Financial Reporting Standards (hereinafter "IFRS") and other local accounting regulations. All ENDESA companies are informed of any changes to the scope of consolidation.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

Furthermore, the financial reporting risk identification and maintenance process also factors in the impact that the other risk factors pinpointed in the risk map may have on the financial statements (primarily operational, regulatory, legal, environmental, financial and reputational).

- Finally, which of the company's governing bodies is responsible for overseeing the process.

The Audit and Compliance Committee is tasked with overseeing the effectiveness of ENDESA's ICFR and informing the Board of Directors accordingly. To this end, recommendations or proposals may be submitted to the Board of Directors, along with the corresponding follow-up period.

F.3

ontrol activities

C

Indicate the existence of at least the following components, describing their main characteristics.

- F.3.1. Procedures for reviewing and authorizing the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Procedures for reviewing and authorizing the financial information and description of ICFR

ENDESA discloses financial information to the market quarterly. This information is prepared by the Management Area, which performs certain controls as part of the closing of accounts procedure in order to ensure the reliability of the information disclosed. In addition, the Planning and Control Area analyses and monitors the information produced.

The General Manager of Administration, Finance and Control analyses the reports received, provisionally certifying the aforementioned financial information for submission to the Transparency Committee.

The Transparency Committee itself for half years, and the representatives designated by the Transparency Committee for quarters, analyze the information received from the Administration, Finance and Control Department. Once it approves the information received, it is sent to the Audit and Compliance Committee.

The Audit and Compliance Committee oversees the financial information presented to it. For the accounting closes that coincide with the end of a six-month financial period, and those of particular importance, the Audit and Compliance Committee also receives information from ENDESA's external auditor on the results of the work it has performed.

Lastly, the Audit and Compliance Committee presents its conclusions regarding the financial information presented to it to the Board of Directors. Once the Board has approved the information for issue, it is disclosed to the market.

Internal Control over Financial Reporting Model

ENDESA's ICFR model is in line with the model established for all Enel Group companies, which is based on the COSO Model (The Committee of Sponsoring Organizations of the Treadway Commission).

Firstly, there are Management Controls or "Entity Level Controls" (hereinafter "Management Controls" or "ELC") and "Company Level Controls" (hereinafter "CLC"). The structural elements are interrelated across all divisions/companies.

There are also specific ELC controls to mitigate the risk of Segregation of Duties (hereinafter "SOD-specific ELC") and access controls (hereinafter "ELC-ACCESS") that mitigate the risk of unauthorized access to the software applications or network folders involved in the process.

In application of the Enel Group model, ENDESA has identified the following business cycles at the process level common to all its subsidiaries:

- 1) Fixed assets
- 2) Accounting close
- 3) Capital investments
- 4) Finance
- 5) Inventory
- 6) Personnel Expenses
- 7) Procurement cycle
- 8) Revenue cycle
- 9) Taxes other than income tax

The ICFR unit manages and continuously updates documentation on each process, following the methodology established to this end. All organizational changes imply the need to review the control model in order to assess their impact and make any changes required to ensure operational continuity. The primary components of each process are:

- Risks.
- Control activities. Also called "Process Level Controls" (hereinafter "PLC"), except for the specific case of IT systems, which are called IT General Controls (hereinafter "ITGCs").

The control activities ensure that, in the ordinary course of business and in respect of all consolidated financial statement headings, ENDESA's control targets are met.

The internal control model applied in 2017 involves an average level of coverage of 95.3% of the main consolidated financial statement headings (total assets, indebtedness, pre-tax income and results).

All information relating to the internal control model is documented in the IT tool called SAP-GRC PROCESS CONTROL (hereinafter SAP-GRC). The persons responsible for the control activity (the Control Owners) are appointed by the process managers, and are responsible for carrying out the six-monthly self-assessments.

The Internal Control Unit provides those responsible for processes and controls with the support required and ensure that the assessment process proceeds correctly.

The ICFR assessment process includes:

- The certification of the internal control system, covering the following phases:

- Self-assessment of Control Activities (PLC).
- Self-Assessment of Management Controls (ELC/CLC).
- Sign-off from the people responsible at the different Organisational Units involved, escalated throughout the company's hierarchy through to sign-off by the CEO.

All of these phases are monitored and supported by the Internal Control Unit. ? The verification performed by the external consultant on ENDESA's ICFR controls.

The outcome of the internal control system certification and the results obtained as part of the verification performed by the external consultant are included in the report from ICFR.

The weaknesses detected are classified into three categories as follows, depending on their possibility of impact on financial statements:

- Control weaknesses (insignificant)
- Significant weaknesses
- Material weaknesses

All weaknesses detected in the internal control system result in a specific action plan being drawn up to resolve each of them. The Internal Control Unit reports to the Transparency and Audit and Compliance Committees on these weaknesses detected in the ICFR until they are definitively resolved.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Global ICT area is responsible for the IT and telecommunications systems for all ENDESA's businesses and geographic markets.

The duties attributed to Global ICT include the definition, application and monitoring of the security standards and the development and operation of infrastructure and software, both for traditional models and for the new cloud computing paradigm. All computing activities are performed applying the internal control method in the field of information technologies.

ENDESA's internal control model and, in particular, Global ICT's model, encompass the IT processes, which in turn include the IT environment, architecture and infrastructure, and the applications, which affect transactions with a direct impact on the entity's key business processes and, ultimately, its financial information and reporting processes. These controls can be implemented by means of automated programming or using manual procedures. ENDESA has an global internal control model for all key IT systems used in preparing financial information, which is designed to guarantee the overall quality and reliability of the financial information produced at each close and, by extension, the information disclosed to the market.

The IT system internal control model is structured into four areas of governance:

- Planning and Organization

- Solution and Maintenance
- Service Delivery and Support
- Performance Monitoring

These areas are in turn developed as part of processes and sub-processes with the necessary refinements to guarantee an appropriate level of control of the IT system and ensure the integrity, availability and confidentiality of each company's financial information.

ENDESA's internal IT system control model contains the control activities needed to cover the risks intrinsic to the following IT system management aspects, and financial information processes and systems:

- IT environment
- Management of application changes
- IT operations and management
- Logical security and physical access
- Telecommunications

To ensure the security of its information, in 2007, ENDESA set up its Information Security function, currently integrated into the Security Division of the Media Department, in response to requirements dictated by legislation, the technological environment and the market itself. This is based on the regulatory framework established for information security, whose guiding principles are included in the Security Policy (Policy 40), in the Information Protection and Classification Policy (Policy 33) and the IT Systems Access Control Policy (Policy 111).

The Security Policy establishes the organizational framework for managing the security risks to which the company's tangible and intangible assets and people resources are exposed, determining the implementation of technical and organizational measures needed for their control and management.

The objectives of this are:

- The protection of employees from risks of an intentional nature or risks derived from natural disasters
- The observance of current safety standards, laws and regulations.
- Protection of IT infrastructure and software, industrial automation systems and control systems.
- Protection of tangible resources (work places, the company's infrastructure systems) from threats that could affect their value or compromise their functional capacity.
- Ongoing safeguarding of information and data from unauthorized alteration (integrity); unauthorized access (confidentiality); and accidental or intentional damage that might affect their use by authorized users (availability); ensuring that the person responsible for the information or provision of a service (and their counterparty) are who they say they are (authentication); and that it is always possible to know who has carried out any action affecting the information and when (auditability).

The IT Systems Access Control Policy (Policy 111) is also in place, which sets out guidelines and establishes the control model for the management of access to IT systems and applications, reducing the risk of fraud or involuntary access to Group information and safeguarding the confidentiality, accuracy and availability thereof.

In 2007, Endesa set up a Decision Rights Management function (currently known as Segregation of Duties, part of the Internal Control Unit) to guarantee the identification, management and control of functional incompatibilities and ensure that no single person can dominate a critical process.

In terms of the foregoing, Function Segregation Controls (SOD-specific ELC) and logical access controls (ELC-ACCESS) form part of the ICFR and are assessed and verified just like all the other controls that form part of the model.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

When ENDESA outsources an activity involving the issue of financial information, it requires the supplier to provide a guarantee attesting to the internal control measures in place for the activities performed. When processes are outsourced, service providers are asked to obtain an ISAE 3402 "International Standard on Assurance Engagements" report. When IT infrastructure services are delegated (Datacenter and Hardware), service providers are required by contract to obtain an SOC1/SSAE16 report. These reports allow ENDESA to check whether the service provider's control objectives and activities have worked during the corresponding time horizon. In other instances, such as services to delegate software or IT platforms, ENDESA contracts an independent expert to certify that the services do not present any material shortcoming with respect to the process of generating the ENDESA's consolidated financial statements. When ENDESA engages the services of an independent expert, it first assures itself of their legal and technical competence and skills. ENDESA has control activities in place in respect of independent expert reports, as well as staff with the ability to validate the reasonableness of the report findings.

There is also an internal procedure for hiring external advisors, which stipulates a series of clearances depending on the size of the engagement, which may even call for CEO approval. The results and/or reports of outsourced accounting, tax or legal activities are supervised by the Administration, Finance and Control Department and the Legal Counsel Department along with any other areas whose expertise is deemed of value to this end.

F.4 formation and communication

Indicate the existence of at least the following components, describing their main characteristics.

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Responsibility for application of ENDESA's accounting policies for all its geographic markets is centralized in ENDESA's Administration, Finance and Control Department.

ENDESA's Administration, Finance and Control Department has an Accounting Criteria and Reporting Unit which is specifically responsible for analyzing the International Financial Reporting Standards (hereinafter, "IFRS") and the Spanish Chart of Accounts (GAAP) as they impact ENDESA Group companies. In performance of these functions, the Accounting Criteria and Reporting Unit is responsible for:

- Defining ENDESA's accounting policies.
- Analyzing executed and planned transactions to determine the appropriateness of their accounting treatment in line with ENDESA's accounting policies.
- Monitoring the new standards being worked on by the International Accounting Standards Board (hereinafter "IASB") and the Instituto de Contabilidad y Auditoría de Cuentas (hereinafter "ICAC"), any new standards approved by the IASB and the related European Union endorsement process, assessing the impact their implementation will have on the Group's consolidated financial statements at different levels.
- Resolving any query made by any subsidiary regarding application of ENDESA's accounting policies.

The Accounting Criteria and Reporting Unit keeps all those with financial reporting responsibilities at the various levels within ENDESA abreast of amendments to accounting standards, settling any doubts they may have and gathering the required information from subsidiaries to ensure consistent application of ENDESA's accounting policies and to enable it to quantify the impact of application of new or amended accounting standards.

ENDESA's accounting policies are based on IFRS and are documented in the "ENDESA Accounting Manual". This document is updated regularly and is distributed to the parties responsible for preparing the financial statements of all ENDESA companies.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

ENDESA has a series of IT tools (classified internally as relevant for the purposes of ICFR) to cover all the reporting needs of its individual financial statements in addition to facilitating the consolidation process and subsequent analysis. These tool form part of a homogeneous process, under a single audit plan for the information corresponding to the separate financial statements of all ENDESA subsidiaries, including the notes and additional disclosures needed to prepare the annual financial statements. Each year, ENDESA engages an independent expert to certify that the tools do not present any material shortcoming with respect to the process of generating ENDESA's consolidated financial statements.

The data is uploaded into this consolidation system by a process that begins with the loading of Financial Information System (transactional), which is also centralized and in place in virtually all ENDESA companies.

In turn, the ICFR model is supported by a IT system that produces all the information needed to draw conclusions with respect to effectiveness of the model.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics.

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR.

Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

Every six months, the Administration, Finance and Control Department's Internal Control Unit monitors the process by which the design and functioning of the ICFR system is evaluated and certified. It duly reports its findings to the Transparency Committee, which is the body responsible for ensuring adequate internal control of the information disclosed to the market.

To this end, the Internal Control Unit is supplied with the evaluation of the entity/company, process and IT control (ELCs/CLCs, PLCs and ITGCs, respectively) in order to verify:

- In the event of process changes, whether the identification of control activities has been duly updated and the new control activities sufficiently cover the process control risks.

- Whether all weaknesses in the control system design or functioning have been detected. A weakness refers to an incident which implies that the control system may not be able to guarantee with reasonable assurance the ability to acquire, prepare, summaries and disclose the Company's financial information.

- Whether the actual/potential impact of the aforementioned weaknesses has been evaluated and any required mitigating control activities put in place to guarantee the reliability of the financial information, notwithstanding the existence of these weaknesses.

- The existence of action plans for each weakness identified.

In the course of this process, any incidents of fraud, no matter how insignificant, involving managers or staff participating in processes with a financial reporting impact are identified and reported.

In addition, over the course of the year, progress on the actions plans put in place by ENDESA to address any shortcomings identified previously. These plans are defined by those responsible for each process and shared with the Internal Control Unit.

The Transparency Committee is informed of and certifies the evaluation of the model, the assessment of weaknesses and the status of related action plans twice a year.

Lastly, every six months, the Administration, Finance and Control Department presents the Audit and Compliance Committee with its conclusions with respect to the evaluation of the ICFR system and progress on executing the action plans deriving from earlier evaluations.

The half-yearly evaluations carried out in 2017 revealed no material ICFR weaknesses. The following is a list of the number of controls evaluated and reviewed by the external consultant:

TOTAL CONTROLS 2,406 Assessed and 404 Revised by the external consultant

Controls: 2,219 Assessed and 403 Revised by the external consultant, of which:

- PLC Controls: 2,073 Assessed and 377 Revised by the external consultant

- ELC/CLC Controls: 130 Assessed and 23 Revised by the external consultant, of which SOD-specific ELC controls accounted for: 55 Assessed and 23 Revised by the external consultant and the Remaining ELC/CLC: 75 Assessed. -

- ELC Controls - ACCESS: 16 Assessed and 3 Revised by the external consultant.

ITGC general controls: 187 Assessed.

As a result of both the self-assessment process and the review carried out by the external consultant, 20 control weaknesses that do not significantly affect the quality of the financial information were identified, and 3 insignificant weakness relating to ITGC general controls. In keeping with the foregoing, ENDESA's management believes that the ICFR model for the period 1 January to 31 December 2017 proved effective and that the controls and procedures in place to provide reasonable assurance that the information disclosed by the Group to the market is reliable and adequate are similarly effective.

Furthermore, ENDESA's Internal Audit Unit, whilst performing process audits, identifies the main weaknesses in the internal control system, proposing the action plans required to resolve them, those responsible for implementing them and the corresponding period for following up.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Each year, the Board of Directors holds a meeting with the external auditor to receive information on the work performed and the financial position of and risks faced by the Company.

ENDESA's auditor has access to ENDESA Senior Management, to which end it holds regular meetings in order to gather the information needed to perform its work and to notify any control weaknesses encountered in the course of its work.

The Audit and Compliance Regulation also establishes among its competences: To review, analyze and discuss on an on-going basis the financial statements and other non-financial information related to the management, internal audit, external auditor or, as the case may be, audit firm, as applicable.

F.6 Other relevant information

All of ENDESA's material ICFR disclosures are covered in the preceding sections of this report.

F.7 External auditor

report State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

Pursuant to CNMV Circular 7/2015 of 22 December, ENDESA has included in its 2017 Annual Corporate Governance Report a description of the main features of its internal control and risk management systems with regard to statutory financial reporting, following the structure proposed in the aforementioned Circular. In addition, ENDESA has considered it appropriate to ask its external auditor to issue a report on its review of the information disclosed in this ICFR report in accordance with the pertinent professional conduct guide.

DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the Company's compliance with the recommendations of the Good Governance Code for Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behavior. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant X

Explain

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
 - a) The type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies.
 - b) The mechanisms in place to resolve possible conflicts of interest.

Compliant

Partially compliant

Explain

Not applicable X

3. During the general shareholders' meeting, in addition to the written dissemination of the annual corporate governance report, the chairman of the Board of Directors verbally informed the shareholders, in sufficient detail, about the most relevant aspects of the Company's corporate governance and, in particular:

- a) About the changes that had occurred since the last general shareholders' meeting.
- b) About the specific reasons why the Company does not follow some of the recommendations in the Corporate Governance Code and about the alternative rules it applies, if any, in that area.

Compliant X

Partially compliant

Explain

4. The Company should define and promote a policy of communication and contact with shareholders, institutional investors and vote advisors that fully respects rules against market abuse and treats shareholders in the same position in a similar fashion.

And the Company should make the policy public on its website, including information relating to the way in which the same has been put into practice and identifying the parties responsible for it.

Compliant X

Partially compliant

Explain

5. The Board of Directors should not submit a proposed proxy for issuing shares or convertible bonds with the exclusion of pre-emptive rights to the general shareholders' meeting, for an amount higher than 20% of the capital at the time of the proxy.

And when the Board of Directors approves any issue of shares or convertible bonds with exclusion of pre-emptive rights, the Company should immediately publish on its website the reports on that exclusion referred to by commercial legislation.

Compliant X

Partially compliant

Explain

6. Listed companies that draw up the following reports, whether of a compulsory or voluntary nature, should publish them on their website sufficiently in advance of the general shareholders' meeting, although their dissemination is not compulsory:

- a) Report on the independence of the auditor.
- b) Reports on the operation of the audit and appointment and remuneration committees.
- c) Audit committee's report on related-party transactions.
- d) Report on the corporate social responsibility policy.

Compliant X

Partially compliant

Explain

7. The Company should broadcast the general shareholders' meetings live on their website.

Compliant X

Explain

8. The audit committee should ensure the Board of Directors tries to present the annual accounts to the general shareholders' meeting without limitations or reservations in the audit report. Should such reservations exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant X

Partially compliant

Explain

9. The Company should publish on its website, permanently, the requirements and procedures that it will accept for certifying ownership of shares, the right to attend the general shareholders' meeting and exercising or delegating the right to vote.

And those requirements and procedures should favour the shareholders attending and exercising their rights and be applied in a non-discriminatory fashion.

Compliant X

Partially compliant

Explain

10. When a legitimated shareholder has exercised the right, before the general shareholders' meeting, to complete the agenda or submit new proposed resolutions, the Company:

- a) Immediately disseminates these additional points and new proposed resolutions.
- b) Publishes the attendance, remote voting and proxy card model with the precise amendments so that the new points on the agenda and alternative proposals may be voted on under the same terms as the proposals made by the Board of Directors.
- c) Submits all of these points and alternative proposals to voting and applies the same voting rules to them as to those made by the Board of Directors, including, in particular, the presumptions or deductions on voting.
- d) Subsequent to the general shareholders' meeting, announce the breakdown of the voting on these additional points or alternative proposals.

Compliant

Partially compliant

Explain

Not applicable X

11. If the Company has planned to pay premiums for attendance at the general shareholders' meeting, a general policy on those premiums should be established in advance and the policy should be stable.

Compliant

Partially compliant

Explain

Not applicable X

12. The Board of Directors should perform its duties with a single purpose and independent criteria, treat all shareholders in the same position in the same manner and be guided by the Company's interests, understood to be achieving a profitable and sustainable business in the long term, which promotes its continuity and the maximum financial value for the Company.

Pursuing the Company's interests, besides respecting laws and regulations and conduct based on good faith, ethics and respect for commonly accepted customs and good practices, it should try to conciliate the Company's interests with, as applicable, the legitimate interests of its employees, its providers, its clients and those of the remaining stakeholders that may be affected, and also the impact of the Company's activities on the community as a whole and on the environment.

Compliant X

Partially compliant

Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise between five and fifteen members.

Compliant X

Explain

14. The Board of Directors should approve a policy for selecting directors that:

- a) Is precise and attestable.
- b) Ensures that the proposed appointments or re-elections are based on prior analysis of the needs of the Board of Directors.
- c) Encourages diversity of gender, experience and knowledge.

The result of the prior analysis of the needs of the Board of Directors should be contained in the appointments committee's report that is published when the general shareholders' meeting to which the ratification, appointment or re-election of each director is submitted is called.

The policy for selecting directors should promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

The appointments committee will check compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

Compliant X

Partially compliant

Explain

15. Proprietary and independent directors should occupy an ample majority of places on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant X

Partially compliant

Explain

16. The percentage of proprietary directors of the total non-executive directors should not be greater than the proportion between Company capital represented by those directors and the rest of the capital.

This criterion may be minimized:

- a) In large cap companies where few equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board of Directors but not otherwise related.

Compliant X

Explain

17. The number of Independent Directors should represent at least half of all board members.

Nonetheless, when it is not a large cap company or when it is but has one or several shareholders acting in a concerted manner, who control more than 30% of the company capital, the number of independent directors should represent, at least, a third of the total directors.

Compliant X

Explain

18. Companies should publish the following Director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background.
- b) Other boards of directors they belong to, whether listed companies or not, and also other paid activities they perform, whatever their nature.
- c) An indication of the Director's classification as Executive, Proprietary or Independent; in the case of Proprietary Directors, stating the shareholder they represent or have links with.

- d) The date of their first appointment and subsequent re-elections as a company Director.
- e) Shares held in the company, and any options on the same, that they own.

Compliant X Partially compliant Explain

19. The annual corporate governance report should, after verification by the appointments committee, also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant Partially compliant Explain Not applicable X

20. Proprietary directors should resign when the shareholders they represent transfer their equity stake in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Compliant Partially compliant Explain Not applicable X

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board of Directors, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director takes on new roles or new obligations that prevent him or her from dedicating the time required for performing the duties of the role of director, is in breach of his or her fiduciary duties or comes under one of the grounds that disqualify him or her from being independent, in accordance with what is established in applicable legislation.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 16.

Compliant X Explain

22. Companies should establish rules obliging directors to inform the board of directors of any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

And the moment a Director is indicted or tried for any of the crimes stated in company law, the Board of Directors should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The Board of Directors should also disclose all such determinations in the annual corporate governance report.

Compliant X Partially compliant Explain

23. All directors should express clear opposition when they feel a proposal submitted for the board of directors' approval might damage the corporate interest. In particular,

independents and other Directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking representation on the Board of Directors.

When the board of directors makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this recommendation should also apply to the secretary of the board of directors, whether a director or otherwise.

Compliant	Partially compliant	Explain	Not applicable X

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board of directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the annual corporate governance report.

Compliant X	Partially compliant	Explain	Not applicable

25. The appointments committee should ensure that non-executive directors have enough time to properly perform their duties.

The Board of Directors' Regulations should establish the maximum number of boards of directors that its directors may sit on.

Compliant X	Partially compliant	Explain

26. The board of directors should meet with the necessary frequency to properly perform its functions and, at least, eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may individually propose the addition of other items.

Compliant X	Partially compliant	Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And, when necessary, they should delegate with instructions.

Compliant X	Partially compliant	Explain

28. When directors or the secretary express concern about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minute book.

Compliant	Partially compliant	Explain	Not applicable X

29. The company should establish suitable channels for directors to obtain the advice and guidance they need to carry out their duties including, if required by the circumstances, external assistance at the company's expense.

Compliant X	Partially compliant	Explain

30. Regardless of the knowledge required of the directors for exercising their duties, the companies should also offer directors refresher programmes when circumstances so advise.

Compliant X

Explain

Not applicable

31. The agenda should clearly indicate those points on which the board of directors has to adopt a decision or agreement so that the directors may study or gather, in advance, the information required to make such decisions.

When, exceptionally, in urgent cases, the chairman wants to submit decisions or agreements that are not on the agenda to the board of directors for approval, prior and express consent will be required from the majority of directors present, which will be duly recorded in the minutes.

Compliant X

Partially compliant

Explain

32. Directors shall be regularly informed of any changes in shareholdings and of the opinion of significant shareholders, investors and credit rating agencies as regards the company and its group.

Compliant X

Partially compliant

Explain

33. The chairman, as the party responsible for the efficient operation of the board of directors, besides exercising duties that are attributed to him or her by law and the bylaws, should draw up and submit a calendar and agenda to the board of directors; organize and coordinate the regular evaluation of the board and also, where applicable, of the company's chief executive officer; be responsible for managing the board and its effective operation; ensure that sufficient time is spent on the discussion of strategic matters, and agree on and review refresher programmes for each director, when circumstances so advise.

Compliant X

Partially compliant

Explain

34. When there is a coordinating director, the bylaws or board of directors' regulations should attribute to him or her, besides the powers corresponding by law, the following duties: presiding over the board of directors in the absence of the chairman and the vice chairmen, if there are any; echoing the concerns of the non-executive directors; maintaining contact with investors and shareholders to learn their points of view for the purpose of forming an opinion regarding their concerns, in particular, in relation to the company's corporate governance; and coordinating the plan for the succession of the chairman.

Compliant X

Partially compliant

Explain

Not applicable

35. The secretary of the board of directors should especially ensure that the board of directors take the good governance recommendations contained in this good governance code into account when they are applicable to the company.

Compliant X

Explain

36. The board of directors, in plenary session, should evaluate and adopt, where applicable, an action plan once a year to correct deficiencies detected with regard to:

- a) The quality and efficiency of the functioning of the board of directors.
- b) The operation and composition of its committees.
- c) Diversity in the composition and powers of the board of directors.
- d) The performance of their duties by the chairman of the board of directors and by the company's chief executive officer.
- e) The performance and contribution of each director, paying special attention to the managers of the board's different committees.

The evaluation of the different committees will be based on the reports they submit to the board of directors and the latter will be evaluated based on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in carrying out an assessment by an independent external consultant, whose independence will be verified by the appointments committee.

The business relationships that the consultant or any company in its group maintains with the company or any group company must be listed in the annual corporate governance report.

The process and areas evaluated will be described in the annual corporate governance report.

Compliant X	Partially compliant	Explain

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board should also act as secretary to the executive committee.

Compliant X	Partially compliant	Explain	Not applicable

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all members of the board of directors should receive a copy of the executive committee's minutes.

Compliant	Partially compliant	Explain	Not applicable X

39. The members of the audit committee and, especially, its chairman should be appointed bearing in mind their knowledge and experience in accounting, auditing or risk management, and most of those members should be independent directors.

Compliant X	Partially compliant	Explain

40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function and ensures the proper operation of internal reporting and control systems and that reports to the non-executive chairman of the board or of the audit committee.

Compliant X	Partially compliant	Explain

41. The head of the unit that assumes the internal audit function should present an annual work programme to the audit committee; directly report any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant X	Partially compliant	Explain	Not applicable

42. Besides those set out in law, the following duties correspond to the audit committee: 1. With respect to internal control and reporting systems:

- a) To monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, check for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- b) To strive for the independence of the unit that assumes the internal auditing function; propose the selection, appointment, re-election and removal of the person responsible for the internal auditing services; propose the budget for such service; approve the focus and work plan to ensure the activity is primarily focused on relevant risks for the company; receive regular information on its activities; and verify that senior management takes into consideration the conclusions and recommendations of its reports.
- c) To establish and supervise a mechanism whereby staff can report, confidentially and, if possible and necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect of the external auditor:

- a) To investigate the issues giving rise to the resignation of any external auditor.
- b) To ensure that the remuneration of the external auditor for his work does not compromise its quality or its independence.
- c) To oversee that the company reports, as a material fact, to the Spanish Securities Market Commission (CNMV) the change of auditor and accompanies it with a declaration on the eventual existence of disagreements with the outgoing auditor and, if any, the content thereof.
- d) To ensure that the external auditor maintains an annual meeting with the board of directors, in plenary session, to inform it regarding the work performed and the financial position of and risks faced by the company.
- e) To ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on the independence of the auditors;

Compliant X

Partially compliant

Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant X

Partially compliant

Explain

44. The audit committee should be informed of any transactions that would implement structural and corporate changes that the company aims to make for their analysis and a preliminary report to the board of directors on their economic conditions and their accounting impact and, especially, where applicable, on the proposed exchange ratio.

Compliant X

Partially compliant

Explain

Not applicable

45. Control and risk management policy should specify at least:

- a) The different types of risk, financial and non-financial, (inter alia, operational, technological, legal, social, environmental, political and reputational) that the company is exposed to, including among financial or economic risks, contingent liabilities and other risks not on the balance sheet.
- b) The determination of the risk level the company sees as acceptable.

- c) Measures in place to mitigate the impact of risk events should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Compliant X

Partially compliant

Explain

46. Under the direct supervision of the audit committee or, where applicable, of a specialist committee of the board of directors, there should be an internal risk control and management function exercised by one of the company's internal units or departments that has expressly been entrusted with the following duties:

- a) Ensure the proper operation of the risk control and management systems and, in particular, ensure that all important risks that affect the company are appropriately identified, managed and quantified.
- b) Actively participate in drawing up the risk strategy and in important decisions regarding its management.
- c) Ensure that the risk control and management systems appropriately mitigate risk as part of the policy defined by the board of directors.

Compliant X

Partially compliant

Explain

47. The members of the appointments and remuneration committee —or the appointments committee and the remuneration committee, if they are separate— should be appointed ensuring that they have the appropriate knowledge, aptitude and experience for the functions that they are called upon to perform and the majority of those members should be independent directors.

Compliant X

Partially compliant

Explain

48. Large cap companies should have a separate appointments committee and remuneration committee.

Compliant

Explain X

Not applicable

The Endesa Board of Directors consists of 11 members, 5 of whom are independent.

Following the recommendations in the Code of Good Governance, most members of the Appointments and Remuneration Committee (comprised of six members) are independent. Specifically, all independent members of the Board (five) sit on this Committee.

The decision has been taken not to separate the current Appointments and Remuneration Committee into two different committees (an appointments committee and a remuneration committee) as their composition would be practically identical, made up of the five independent directors.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and the company's Chief Executive Officer, especially on matters relating to executive directors.

Any board member should be able to suggest directorship candidates to the appointments committee for its consideration.

Compliant X

Partially compliant

Explain

50. The remuneration committee should exercise its functions independently and, besides the functions attributed to it by law, should also have the following duties:

- a) To propose the standard conditions for senior officer employment contracts to the board of directors.
- b) To check compliance with the remuneration policy set by the company.
- c) To regularly review the remuneration policy applied to directors and senior management, including systems of remuneration in shares and its application, and also guarantee that their individual remuneration is proportionate to that paid to the other company directors and senior management.
- d) To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the committee.
- e) To verify information regarding remuneration of directors and senior executives provided in various corporate documents, including the annual report on remuneration of directors.

Compliant X

Partially compliant

Explain

51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant X

Partially compliant

Explain

52. The rules for the composition and operation of the supervision and control committees should be in the board of directors' regulations and should be consistent with those applicable to the commissions that are applicable by law in accordance with the above recommendations, including:

- a) They should be exclusively comprised of non-executive directors, and the majority should be independent directors.
- b) Committees should be chaired by an independent director.
- c) The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and should report on their activity to the first board plenary following their meetings and should answer for the work done.
- d) The committees may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes should be taken of their meetings and should be available to all directors.

Compliant X

Partially compliant

Explain

Not applicable

53. One or several committees of the board of directors should be responsible for supervising compliance with the corporate governance rules, with internal codes of conduct and with the corporate social responsibility policy; these may be the audit committee, the appointments committee, the corporate social responsibility committee, if there is one, or a specialist committee that the board of directors, exercising its powers of self-organization, decides to create for the purpose, which will have the following specific minimum duties:

- a) Supervision of compliance with the internal codes of conduct and the company's corporate governance rules.
- b) Supervision of the communications strategy and relationships with shareholders and investors, including small and medium shareholders.

- c) Regular assessment of the suitability of the company's corporate governance system, so that it complies with its mission of promoting social interest and takes into account, as applicable, the legitimate interests of the other stakeholders.
- d) Review of the company's corporate social responsibility policy, ensuring it is aimed at creating value.
- e) Monitoring the corporate social responsibility strategy and practices and assess compliance therewith.
- f) Supervision and assessment of the engagement processes for different interest groups.
- g) Assessment of all aspects related to the company's non-financial risks – including operating, technological, legal, social, environmental, political and reputational risks.
- h) Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.

Compliant X

Partially compliant

Explain

54. The corporate social responsibility policy should include the principles or commitments that the company assumes voluntarily in its relationship with the different stakeholders and should identify at least:

- a) The goals of the corporate social responsibility policy and the development of support instruments.
- b) Corporate strategy relating to sustainability, the environment and social matters.
- c) Specific practices in matters relating to: shareholders, employees, clients, providers, social matters, environment, diversity, tax obligations, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of applying the specific practices indicated in the previous letter, the associated risk and management of the same.
- e) Mechanisms for supervising non-financial risk, ethics, and business conduct.
- f) Channels of communication, participation and dialogue with stakeholders.
- g) Responsible communication practices that prevent manipulation of information and protect integrity and honour.

Compliant X

Partially compliant

Explain

55. The company should report, in a separate document or in the management report, on matters relating to corporate social responsibility, using any of the internationally accepted methodologies.

Compliant X

Partially compliant

Explain

56. The remuneration of the directors should be as necessary to attract and retain directors of the desired profile and to remunerate the dedication, qualification and responsibility that the role requires, but not so high that it compromise the non-executive director criteria of independence.

Compliant X

Explain

57. Variable remuneration linked to the company's performance and personal performance, in addition to remuneration comprising the delivery of shares, share options, rights to shares or other share-based instruments, and long-term savings systems

such as pension plans, retirement systems and other social benefit systems should be confined to executive directors.

The delivery of shares may be contemplated as remuneration for non-executive directors when they are obliged to retain them until the end of their tenure. The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.

Compliant X

Partially compliant

Explain

58. In the case of variable remuneration, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not only the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

And, in particular, with regard to the variable components of the remuneration:

- a) They should be related to pre-determined and measurable performance criteria and those criteria should consider the risk assumed to obtain a result.
- b) They should promote the sustainability of the company and include non-financial criteria that should be appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies.
- c) They should be based on balance between compliance with objectives in the short, medium and long term, which allow performance to be remunerated for continued effort over a long enough period of time for their contribution to the creation of sustainable value to be appreciated, so that the elements for measuring this performance do not only revolve around specific, occasional or special events.

Compliant X

Partially compliant

Explain

Not applicable

59. Payment of a relevant part of the variable components of the remuneration should be a deferred for a sufficient minimum period to check that previously established performance conditions have been met.

Compliant X

Partially compliant

Explain

Not applicable

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant X

Partially compliant

Explain

Not applicable

61. A relevant percentage of the variable remuneration of executive directors should be linked to the delivery of shares or share-based financial instruments.

Compliant X

Partially compliant

Explain

Not applicable

62. Once the shares or options or rights to actions corresponding to the remuneration systems have been attributed, the directors may not transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, nor may they exercise the options or rights until, at least, three years after they were attributed.

The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.

Compliant

Partially compliant

Explain

Not applicable X

63. Contractual agreements should include a clause that allows the company to claim a refund of variable components of remuneration when the payment was not adapted to performance conditions or when they were paid based on data which later proved to be incorrect.

Compliant X

Partially compliant

Explain

Not applicable

64. Payments for termination of contract should not exceed a set amount equivalent to two years of total annual remuneration and should not be paid until the company has been able to check that the director has complied with the previously established performance criteria.

Compliant

Partially compliant X

Explain

Not applicable

The contractual conditions of current directors are prior to this recommendation. However, ENDESA's Directors' Remuneration Policy establishes that when new directors are incorporated into Senior Management at the Company or Group, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the code and date of adoption.

- Note section A.3

Section A.3 establishes the number of shares in the Company that Directors held at 31 December 2017. However, it must be noted that the Chairman, Mr Borja Prado, purchased 545 shares in ENDESA on 9 January 2018 meaning that the balance at the time of authorising this report for issue is 16,950 shares.

- Note paragraphs C.1.18

This section includes the changes to the Board of Directors Regulations of December 18, 2017 and 26 February 2018.

- Note section C.1.37

Also includes services provided by the external auditor for audits other than that of the financial statements and other audit-related services, in contrast to the criteria for 2016 which only included other non audit-related services provided by the external auditor.

- Note section E.4

Endesa's Board of Directors, on 30 January 2017 and having obtained a favorable response from the Audit and Compliance Committee, approved Endesa's Tax Risk Management and Control Policy, which regulates the principles that must guide Endesa's Tax Function, defining the obligations and responsibilities within the organization to this end and including a description of the measures that must be in place to mitigate any tax risks potentially identified, in addition to the principles that must guide the correct control of tax risks, including the application of a series of ex-ante preventive controls on the one hand, and the application of a series of ex-post controls, which entail their identification, measurement, analysis, monitoring and reporting in line with the provisions of Endesa's Risk Management and Control Plan and Endesa's Risk Map Guidelines.

CODE OF BEST PRACTICES

At its 20 December 2010 meeting, the Board of Directors of ENDESA approved the adoption of the Code of Best Tax Practices (CBTP). In compliance with the provisions thereof, ENDESA's head of tax matters has been reporting annually to the Board, through the Audit Committee, on the company's tax policies and the tax implications of the company's most significant operations of the year. Furthermore, on 25 January 2016, ENDESA's Board of Directors ratified the company's adherence to the code of Endesa, S.A. and its Spanish subsidiaries after the recent incorporation to the same of an appendix with new obligations of conduct both for the company and for the administration". In addition, on 30 January 2017, the Board of Directors approved the annual submission of the Increased Transparency Report before the Spanish tax authorities, the content and format of which was approved in December 2016 at the Large Businesses Forum that ENDESA forms part of, all within the framework of cooperative compliance developed under the aforementioned CBTP. The aforementioned report for 2016 was submitted on 6 June 2017.

Likewise, Endesa is attached to the United Nations Global Compact, which promotes implementation, on an international level, of the 10 universally accepted principles for promoting corporate social responsibility (CSR) in the areas of human rights, labour regulations, the environment and the fight against corruption in companies' business strategy and activities.

- Note NON-FINANCIAL INFORMATION

Pursuant to the transposition of Directive 2014/95/EU on the disclosure of non-financial information and information on diversity, under Royal Decree Law No. 18/2017, of 24 November 2017, a description of the diversity policy applied in relation to the Board of Directors is provided below.

The policy for selecting candidates for the office of director ensures that the proposed appointments of directors are based on a prior analysis of the requirements of the Board, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, and favours diversity of knowledge, experience and gender, which is a reflection of Endesa's commitment to diverse representation on its highest governing body right from the initial phase of selecting possible candidates.

Specifically, this Policy seeks the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, such as economic-financial, accounting and audit, internal control, business risk management and legal), also promoting, insofar as possible, diversity of age and gender.

Gender: The policy for selecting directors shall promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. In this connection, in 2017, following the inclusion of María Patrizia Grieco on the Board of Directors, the percentage of women has increased from 9% to 18%. At listed companies, the percentage of women on Boards of Directors has increased by 4.6% since 2013, coming to 16.6% in 2016 (CNMV data).

Age: The average age on the Board of Directors is 64, with ages ranging from 52 to 77. According to data published by the annual Spencer Stuart Report, the average age of Directors at Ibex 35 companies in 2016 is 60.4.

Time of service: the average time of service of members of Endesa's Board in 2017 is 4.2 years, compared to the Ibex 35 average of 6.9 years, according to 2016 data released by the CNMV.

The background of Directors is diverse and encompasses disciplines related to the industry to which the Company belongs, such as engineering, law, the economy, etc. As a whole, Directors have the technical knowledge and sufficient experience to perform their duties accordingly.

By nationality, foreign members of Endesa's Board account for 45% of all members, compared to the 19% average at Ibex 35 companies according to the 2016 Spencer Stuart Annual Report.

Endesa is convinced that diversity, in all its facets and at all levels of its professional team, is an essential factor to ensure the Company's competitiveness and a key component of its corporate governance strategy that not only encourages critical stances, but also the expression of diverse viewpoints and positions and the analysis of their positive and negative characteristics.

A table containing details on experience, professional skills and diversity at 31 December 2017 is attached.

This annual corporate governance report was adopted by the company's board of directors at its meeting held on 26/02/2018.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

No X

ANNEX I

Auditor's Report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2017

ENDESA Group

Auditor's report on the "Information relating
to Internal Control over Financial Reporting
(ICFR-SCIIF in Spanish)" for 2017

*Translation of a report originally issued in Spanish. In the event of discrepancy
the Spanish-language version prevails*

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL
OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" OF THE ENDESA GROUP FOR 2017

To the Directors,

At the request of the management of ENDESA, S.A. (the Parent Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated January 22, 2018, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2017 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the ENDESA Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Company's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's annual financial information for 2017 described in the accompanying ICFR. Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit and Compliance Committee.
4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board of Directors Meetings, Audit and Compliance Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and the Circular nº 7/2015, of December 22, of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

José Agustín Rico Horcajo

February 26, 2018

ANNEX II

Additional information to the paragraph H.1

ANNEX H-1: DIVERSITY INFORMATION

In compliance with the transposition of Directive 2014/95/EU on disclosure of non-financial and diversity information as per Royal Decree Law 18/2017, of 24 November 2017, the diversity policy applied to the Board of Directors is described below:

Experience, professional skills and diversity as of 31 December 2017:

DIRECTORS	SKILLS AND COMPETENCIES					DIVERSITY			
	Finance & Risk	Engineering	Legal	Management	Strategy	Tenure (years)	Nationality	Gender	Age
Borja Prado Eulate	✓		✓	✓	✓	10	SPA	M	61
Francesco Starace	✓	✓		✓	✓	3	ITA	M	62
José Bogas Gálvez	✓	✓		✓	✓	3	SPA	M	62
Alberto De Paoli	✓			✓	✓	3	ITA	M	52
Miquel Roca Junyent	✓		✓	✓	✓	8	SPA	M	77
Alejandro Echevarría Busquet	✓			✓	✓	8	SPA	M	75
Maria Patrizia Grieco	✓		✓	✓	✓	1	ITA	F	65
Enrico Viale	✓	✓		✓	✓	3	ITA	M	60
Helena Revoredo Delvecchio	✓			✓	✓	3	ARG	F	70
Ignacio Garralda Ruíz de Velasco	✓		✓	✓	✓	2	SPA	M	66
Francisco de Lacerda	✓			✓	✓	2	PRT	M	57

APPENDIX II

Statement of Non-Financial Information

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Statement of Non-Financial Information of ENDESA, S.A.

Madrid, 26 February 2018

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ORGANISATION OF ENDESA, S.A.

1. Business Model for the Management and Organisation of Company Activities.

1.1. Name of the Organisation.

ENDESA, S.A.

1.2. Activities, Brands, Products and Services.

ENDESA, S.A. (hereinafter the “Company”) was incorporated as a company limited by shares under Spanish law on 18 November 1944 under the name Empresa Nacional de Electricidad, S.A. and changed its name to ENDESA, S.A. pursuant to a resolution passed by the shareholders at the General Meeting of shareholders on 25 June 1997.

Its corporate purpose is the electricity business in all its various industrial and commercial areas; the exploitation of primary energy resources of all types; the provision of industrial services, particularly in the areas of telecommunications, water and gas and those preliminary or supplementary to the Group’s corporate purpose, and the management of the corporate Group, comprising investments in other companies.

The Company carries out its corporate purpose in Spain and abroad through its investments in other companies.

The Company holds interests in Group and jointly controlled companies and Associates, and consequently it is the parent of a group of companies in accordance with current legislation.

The Company’s shares are officially admitted to trading on the Spanish Stock Exchanges.

1.3. Location of the Registered Office.

Calle Ribera del Loira, nº 60

28042 Madrid

Spain

1.4. Location of Operations.

See section 1.7.

1.5. Criteria for the Preparation of the Statement of non-Financial Information.

This document, which is part of the ENDESA’s Management Report as of 31 December 2017, was prepared in accordance with the requirements set forth by Royal Decree-Law 16/2017, of 24 of November, which amends the Merchant Code, Capital Companies Law approved by Royal Legislative Decree 1/2010, 2 July, and Law 22/2015, of 20^h July, on Accounts Auditing, in the aspects of non-financial and diversity information. In order to provide this information, the ENDESA Group has followed the Global Reporting Initiative (GRI Standards) and its sectorial supplement, “Electric Utilities sector Supplement” for the indicators detailed in the Annex attached.

The scope of this Statement of non-financial information includes information for the ENDESA S.A. for 2017.

1.6. Ownership and Legal Form.

To comply with Electricity Sector Law 24/2013 of 26 December 1997, derogating from previous Law 54/1997 of 27 November on the electricity sector, ENDESA, S.A. underwent a corporate reorganisation to separate its various electricity activities. As from that time the activity carried out by ENDESA, S.A. essentially focuses on the management and rendering of services to its business group, which consists of the financial interests described in Note 8 of the Notes to the Annual Accounts for the year ended 31 December 2017.

ENDESA, S.A.'s activity is structured by business lines, giving the Company flexibility and the ability to respond to the needs of its customers in the territories and businesses in which it operates. For the organisation of its lines of business, ENDESA, S.A. works primarily through the following companies:

- ENDESA Generación, S.A.U. which, in turn, comprises, among others, holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), ENEL Green Power España, S.L.U. (EGPE) (100%) and a 50% stake in Nuclenor, S.A., which owns the Nuclear Plant at Santa María de Garoña (Burgos).
- ENDESA Red, S.A.U., which comprises, among others, ENDESA Distribución Eléctrica, S.L.U. (100%), which engages in regulated electricity distribution activities, and ENDESA Ingeniería, S.L.U. (100%).
- ENDESA Energía, S.A.U., which owns holdings in ENDESA Energía XXI, S.L.U. (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%).

1.7. Markets Supplied.

Through its interests in other companies, ENDESA, S.A. generates, distributes and sells electricity mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France, Belgium, and the Netherlands, from its platform in Spain and Portugal.

2. ENDESA, S.A. in Figures.

Millones de Euros

	2015	2016	2017
Operating Profit (millions of euros)	1,219	1,495	1,603
Profit for the Year (millions of euros)	1,135	1,419	1,491
Non-Current Investments in Group Companies and Associates (millions of euros) ⁽¹⁾	14,813	14,793	14,803
Share Capital (millions of euros) ⁽¹⁾	1,271	1,271	1,271
Non-current Financial Debt (millions of euros) ⁽¹⁾	5,929	4,928	4,955
Final Headcount (number of employees) ⁽¹⁾	1,390	1,391	1,360

(1) At 31 December.

3. Significant Organisational Changes.

During 2017, there were no other significant changes in the interests held by ENDESA, S.A. in Group and jointly-controlled companies and associates.

4. Commitment to a Sustainable Energy Model.

4.1. Open Power Strategic Positioning.

ENDESA, S.A. has always been at the forefront of the different progress in the energy sector, carrying safe, accessible and sustainable energy to millions of people through its stakes in other companies.

Aware of the significant change currently affecting the energy sector, ENDESA, S.A. are situated in a new energy era, more open, participative and digital. Such positioning is summarised in the concept of *Open Power*, which constitutes the Company's mission, vision and values:

2025 mission:

- Open energy to more people.
- Open energy to new technologies.
- Open new ways of managing energy for consumers.
- Open energy to new uses.
- Open up ourselves to more employees.

Vision:

- Open Power to affront some of the greatest challenges in the world.

Values:

- Responsibility.
- Innovation.
- Trust.
- Pro-activity.

4.2. Sustainability Policy.

Meeting ENDESA, S.A.'s economic, social and environmental responsibilities in a balanced way, on the basis of sustainability, is essential if it is to maintain its leading position and strengthen it in the future.

Accordingly, the sustainability policy approved by the Board of Directors and applied by ENDESA, S.A. and all its group companies aims to determine and formalise the Company's commitment to sustainable development, shown by the strategic positioning in *Open Power*.

To this effect, the commitments set out in the Sustainability Policy constitute the basis and guidelines for ENDESA, S.A.'s conduct in the promotion of a sustainable business model and, in this regard, its compliance is expressly boosted by the Company's senior management, concerns employees, contractors and suppliers, and is evaluated by third parties:

- These commitments are fully integrated into day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions that are included in successive Sustainability Plans.
- ENDESA, S.A. has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments. In this regard, the Audit and Compliance Committee (ACC) annually monitors the corporate social responsibility strategy and practices.

- ENDESA, S.A.'s focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.
- ENDESA, S.A. is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholders.

Accordingly, the Sustainability Policy establishes nine specific commitments:

- **Customers:** commitment to digital quality, commercial excellence and efficient energy consumption.
- **Shareholders and investors:** commitment to creating value and profitability.
- **People:** commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA, S.A.
- **Conduct:** commitment to good governance, transparency and ethical conduct.
- **Environment:** commitment to reducing the environmental footprint and protecting the environment.
- **Innovation:** commitment to innovation in technology and the scope of services.
- **Company:** commitment to the socio-economic development of the communities in which the Company operates.
- **Institutions:** commitment to developing public-private partnerships to promote sustainable development.
- **Employees:** commitment of those who work with us to be actively involved in sustainability.

5. Organisational Approach of Stakeholder Participation: Identification and Participation of stakeholders.

The stakeholders and their expectations constitute the base on which ENDESA, S.A. organises its sustainability strategy. Accordingly, the Company pledges for the promotion of on-going dialogue with its stakeholders, with respect to which it reviews, identifies and catalogues, for the Company and all of its investees, its stakeholders at regular intervals, both at local and global level.

For further information see Chapter 1, section 5 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

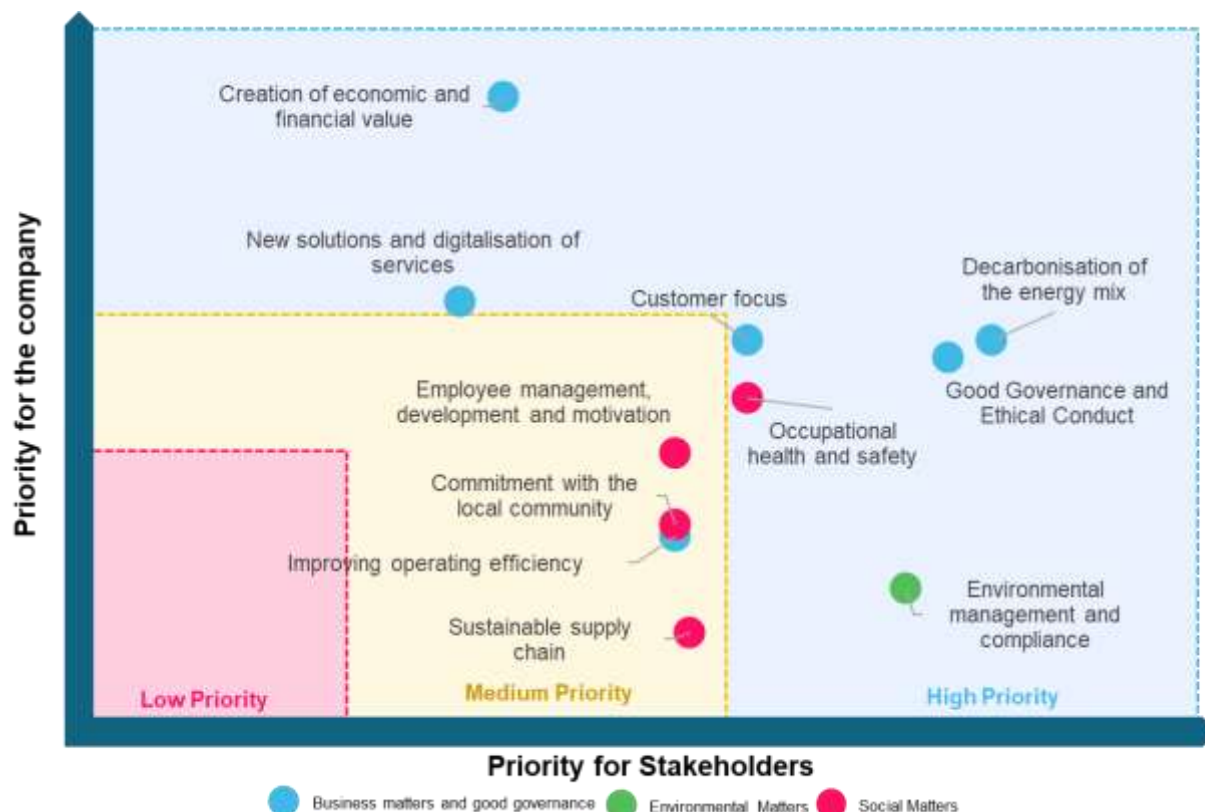
6. Materiality Study: Identification of Priorities based on Dialogue with Stakeholders, and Financial, Environmental and Social Matters

In order to integrate stakeholder expectations in a structured aligned manner with the Company's purpose, ENDESA, S.A. annually performs a priority identification process through its investee companies to assess and select the economic, ethical, environmental and social aspects that are relevant for the stakeholders and for the Company's strategy.

In 2017, ENDESA, S.A. performed a materiality study, which served as a base to define the priorities of its 2018-2020 Sustainability Plan, which will be developed by its investee companies.

Nearly 4,000 sources and representatives of 18 stakeholders were directly and indirectly consulted in 2017.

The combination between the variables analysed in the materiality study performed, that is, relevance in the business strategy and priority for the stakeholders is expressed in the following chart:



As shown in the previous chart, among the most significant matters for the Company's sustainability are, due to their relevance to the Company and its investees, the creation of economic and financial value, the decarbonisation of the energy mix, good governance and ethical corporate code, customer guidance and the development of new solutions and digitalisation.

For further information see chapter 1, section 6.2 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

7. Sustainability Plan.

7.1. ENDESA's 2017-2019 Sustainability Plan (PES).

To succeed in integrating sustainability into the management of the business and into the decision-making processes, there must be maximum alignment between the business strategy implemented by the various investees and the sustainability strategy, so that both are aimed at the attainment of the same objective and which are fed back to achieve it, thereby generating economic value for the Company in the short and long-term.

Accordingly, ENDESA's 2017-2019 Sustainability Plan (PES) defined four priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan itself: decarbonisation of

the energy mix; digitalisation of assets, customers and people; customer guidance and operating efficiency and innovation.

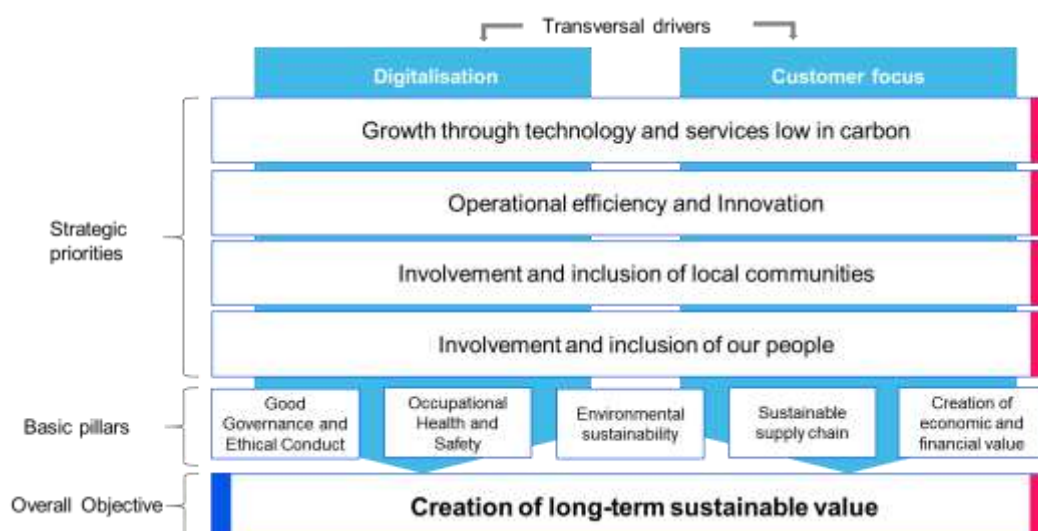
Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management throughout the entire value creation chain, five transversal strategic pillars were identified: integrity, human capital, occupational health and safety, environmental sustainability and responsible supply chain.

With more than 100 quantitative management targets, ENDESA, S.A. has responded to each of the priorities and strategic pillars defined in its 2017-2019 Sustainability Plan (PES) through its subsidiaries' businesses, and has achieved overall compliance of 93%.

As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA, S.A. discloses compliance with its objectives and the courses of action in the 2017-2019 Sustainability Plan (PES) in this Disclosure of Non-Financial Information (see following headings) and in the 2017 Sustainability Report, which will be available for consultation on its website.

7.2. ENDESA's 2018-2020 Sustainability Plan (PES).

On 22 November 2017, ENDESA, S.A. presented the update of its 2018-2020 Strategic Plan to the investment community. Alongside this, and in order to achieve maximum alignment between the sustainability strategy and that of the business, ENDESA, S.A. performed an analysis and a reflection, based on the results of the materiality study performed in 2017 for the design of its new 2018-2020 Sustainability Plan, which will be directly or indirectly executed by the Company and its investees. This plan is based on the achievements and improvement opportunities identified in the previous plan, thereby indicating procedural priorities for the coming three years.



For further information see chapter 1, section 7 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

RISK MANAGEMENT

1. Risk Control and Management Policy.

The Risk Management and Control Policy, approved by the Board of Directors and applied at ENDESA, S.A. and all subsidiaries, involves guiding and directing all strategic, organisational and operating activities to enable the Board of Directors to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising the Company's profit, maintaining or increasing its assets and equity and the certainty of this occurring above certain levels, preventing future uncertain events from undermining the Company's profit targets.

The Risk Management and Control Policy defines ENDESA, S.A.'s risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from the consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and the appropriate use of capital.

The Risk Management and Control Process is based partly on the ongoing study of the risk profile, applying current best practices in the energy sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, always respecting an appropriate balance between the risk assumed and the targets set by the Board of Directors.

The comprehensive risk management process consists of the identification, measurement, analysis and monitoring of different risks, together with their monitoring and control over time, based on the following procedures:

- Identification. The purpose of identifying risks is to maintain a prioritised and updated database of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to the risks assumed, including all of ENDESA, S.A. and its group companies.
- Control. The aim of the risk control is to guarantee that the risk assumed by ENDESA, S.A. is in line with the targets set, in the last instance, by the Board of Directors of ENDESA, S.A.
- Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

This process sets out to secure an overview of risk to assess and prioritise risks. It covers the main financial and non-financial risks to which the Company is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks identified and establishing regular reviews.

Moreover, due to the increased interest in the control and management of the risks to which the companies are exposed, and given the complexity being acquired from identifying this from a comprehensive point of view, the participation of employees is important at all levels of this process. A risk mailbox has now been created for employees to help identify market risks and come up with suggestions for measures to mitigate them, thereby complementing the existing top-down risk management and control systems and mailboxes and specific procedures to send in communications in connection with breaches of ethical conduct, criminal risks and employment risks.

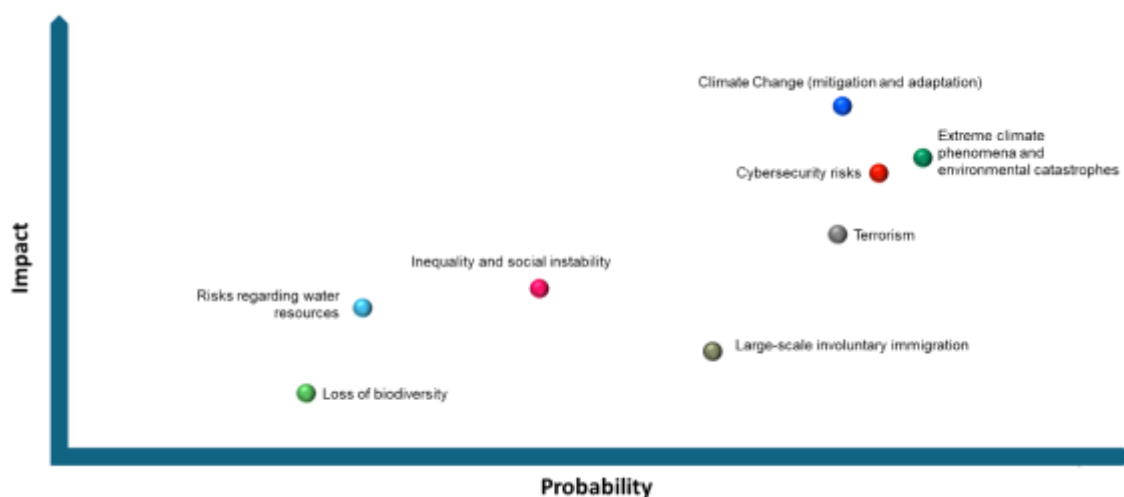
Furthermore, the Board of Directors of ENDESA, S.A. also approved a Tax Risk Management and Control Policy to guide and direct all strategic, organisational and operating activities to enable the Board to identify precisely the acceptable tax risk level, to ensure that the tax managers meet the objectives set by the Risk Management and Control Policy in respect of tax risks. The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A., and is available on its website at www.endesa.com.

2. Main Sustainability Risks - Impacts of Risks and Opportunities Related with Environmental and Social Matters.

Primarily through its investee companies, ENDESA, S.A. is exposed to certain risks which it manages by applying risk identification, measurement, control and management systems. In this regard, the different types of risk, financial and non-financial (among others, operational, technological, legal, social, environmental, political and reputational risks) faced by the Company are taken into account. These aspects are included in the Company's risk management and control system, and are supervised by the Board of Directors' Audit Committee and Audit and Compliance Committee (ACC).

In 2017, ENDESA, S.A. updated the identification of emerging sustainability risks with a medium- and long-term impact related with certain of the dimensions of sustainability. The objective is to analyse the impact that they may have on the businesses of its investee companies and to establish the measures required for their control and prevention.

In this regard, ENDESA, S.A. has taken the identification of global risks prepared by the World Economic Forum as a reference, based on enquiries to almost 1,000 experts on the perception of global risks. This map was adjusted to the context of the operations of ENDESA, S.A. and its investee companies, based on enquiries made by the Company to stakeholders as part of the materiality study, thereby enabling the most significant sustainability risks to be identified.



For further information see section 2 of the Risk Management section in the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

RESPECT FOR HUMAN RIGHTS

1. Management Approach: Human Rights Policy at ENDESA, S.A.

ENDESA, S.A. maintains a permanent commitment to the respect and promotion of human rights. This commitment is reflected in its corporate policies and shown by its adhesion to the United Nations Global Compact, the two first principles of which include supporting and respecting the protection of human rights and non-complicity in human rights abuse. Moreover, since it was founded, ENDESA, S.A. has been a pioneer in activities that ensure respect for human rights in its lines of business and its supply chain, by developing continuous processes to identify risks and potential impacts regarding human rights.

Following the approval of the Guiding Principles on Business and Human Rights by the United Nations, ENDESA, S.A. decided to formally adapt their historical commitment to respect for and the promotion of human rights to this new framework, integrating it into the management of business activities.

Thus, in 2013 the Board of Directors of ENDESA, S.A. approved the following human rights policy, in line with the recommendations established in the Guiding Principles. This policy covers the commitment and responsibilities of ENDESA, S.A. with regard to all human rights, especially those that affect its business activity and operations carried out by ENDESA, S.A. workers, whether executives or employees. In addition, the Company encourages its contractors, providers and trade partners to adhere to the same principles, focusing particularly on conflictive and high-risk situations. That policy is applicable at ENDESA and all of its investee companies.

The policy consists of eight principles covering two large areas, which are labour practices and communities and companies:

Labour practices:

- Freedom of association and collective bargaining.
- Rejection of forced or mandatory labour and child labour.
- Respect for diversity and non-discrimination.
- Occupational health and safety.
- Fair and favourable working conditions.

Communities and societies:

- Respect for community rights.
- Integrity: zero tolerance against corruption.
- Privacy and communications.

This policy can be found at www.endesa.es.

With the aim of applying the commitments included in its human rights policy, and following the recommendations of the Guiding Principles, ENDESA, S.A. is committed to establishing appropriate due diligence processes that guarantee their implementation and tracking, thereby evaluating any existing effects and risks associated with human rights and implementing measures to mitigate these.

Along these lines, ENDESA, S.A. carried out a due diligence process in 2017 to assess the level of compliance with its policy and the Guiding Principles. This process has been implemented throughout its business activities in Spain, including those of its investee companies, with respect to electricity generation, distribution and supply activities, as well as supply chain management, asset purchasing processes and corporate functions.

This process was developed initially by identifying the level of country risk, with a subsequent assessment of the real and potential impacts of the activities of ENDESA, S.A. on human rights and, finally, by designing an action plan.

Given that the main matters relating to Human Rights at ENDESA, S.A. concerned the operation of its investee companies, details of the process for evaluating, identifying improvement opportunities and designing the action plan are set out in the chapter on Respecting Human Rights in the Statement of non-financial information and information regarding diversity in the consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

2. Cases of Discrimination and Corrective Measures Undertaken.

In 2017, there was one complaint and ENDESA, S.A. regarding mobbing or corporate climate and human rights management, but it was shelved as it was deemed to have no grounds.

CORPORATE GOVERNANCE

1. Diversity of Competences and Viewpoints of Members of the Boards of Directors, Management and Supervision by Age, Gender and Educational and Professional Background.

1.1. Breakdown of the highest governing body.

Breakdown of ENDESA's Board of Directors at 31-12-2017			
Position on the board	Name or corporate name of director	Category of director	Date of the first appointment
Chairman	Borja Prado Eulate ⁽¹⁾	Executive	20/06/2007
Deputy Chairman	Francesco Starace	Proprietary	16/06/2014
Chief Executive Officer	José D. Bogas Gálvez	Executive	07/10/2014
Director	Alejandro Echevarría Busquet	Independent	25/06/2009
Director	Ms Helena Revoredo Delvecchio	Independent	04/11/2014
Director	Miquel Roca Junyent	Independent	25/06/2009
Director	Ignacio Garralda Ruiz de Velasco	Independent	27/04/2015
Director	Francisco de Lacerda	Independent	27/04/2015
Director	Enrico Viale	Proprietary	21/10/2014
Director	Alberto de Paoli	Proprietary	04/11/2014
Director	Ms Maria Patrizia Grieco	Proprietary	26/04/2017
Secretary	Borja Acha Besga	-	01/08/2015

(1) Appointed as Chairman on 24/03/2009.

Directors	Qualifications and Skills					Diversity			
	Finances and Risks	Engineering	Legal	Management	Strategy	Years in the Position	Nationality	Gender	Age
Borja Prado Eulate	✓	□	✓	✓	✓	10	ESP	H	61
Francesco Starace	✓	✓		✓	✓	3	ITA	H	62
José D. Bogas Gálvez	✓	✓		✓	✓	3	ESP	H	62
Alberto De Paoli	✓	□		✓	✓	3	ITA	H	52
Miquel Roca Junyent	✓	□	✓	✓	✓	8	ESP	H	77
Alejandro Echevarría Busquet	✓	□		✓	✓	8	ESP	H	75
Maria Patrizia Grieco	✓	□	✓	✓	✓	1	ITA	M	65
Enrico Viale	✓	✓		✓	✓	3	ITA	H	60
Helena Revoredo Delvecchio	□ ✓	□		✓	✓	3	ARG	M	70
Ignacio Garralda Ruiz de Velasco	✓	□	✓	✓	✓	2	ESP	H	66
Francisco de Lacerda	✓	□		✓	✓	2	PORT	H	57

1.2. Appointment and Selection of the Highest Governing Body.

Article 9 of the Board of Directors' Regulations- Selection, appointment, ratification and re-election of directors stipulates that: *"At the proposal of the Appointments and Remuneration Committee, the Board of Directors will approve a specific and attestable policy for selecting candidates for the role of director, which ensures that the proposed appointments of directors are based on a prior analysis of the Board's requirements, and favours diversity of knowledge, experience and gender"*.

To this end, on 10 November 2015 the Board of Directors approved a policy for the selection of Board Members (modified on 18 December 2017 to improve the technical contents of the policy and adapt to best practices of corporate government) that is concrete and verifiable and intends to integrate distinctive professional and management experience and expertise (including economic-financial and legal experience and expertise and that specifically associated with Company business) while promoting, insofar as possible, gender and age diversity.

Likewise, pursuant to article 9 of the Board of Directors' Regulations, *"proposals for the appointment, ratification or re-election of directors formulated by the Board shall be made in respect of persons of recognised prestige, who possess the adequate professional experience and knowledge to perform their duties, and who assume a commitment of sufficient dedication to*

perform the tasks of the former.

The General Shareholders' Meeting or, in its absence, the Board of Directors shall have the authority to appoint the members in accordance with the Spanish Corporate Enterprises Act and the Articles of Association. The position of director may be renounced, revoked and re-elected.

The proposed appointment, ratification or re-election of directors made by the Board of Directors to the General Shareholders' Meeting, or which the Board of Directors itself approves in the first case, shall be made at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and following a report by said Committee for all other types of directors".

1.3. Diversity in Governing Bodies.

Article 5 of the policy for the selection of directors (approved on 10 November 2015 and modified on 18 December 2017, with the aim of improving the technical content of the policy and adapting it to the best corporate governance practices) sets forth the Company's commitment to promote gender diversity: *"ENDESA is convinced that diversity, in all its facets and at all levels of its professional team, is an essential factor to ensure the Company's competitiveness and a key component of its corporate governance strategy that not only encourages critical stances, but also the expression of diverse viewpoints and positions and the analysis of their positive and negative characteristics.*

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximising the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the Organisation, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the director selection policy will promote the goal of ensuring that the number of female directors represents, at least, 30% of the total members of the Board of Directors by 2020".

FIGHT AGAINST CORRUPTION AND BRIBERY

1. Material Aspects, Action Plans, Objectives and Results.

Integrity and ethical behaviour are fundamental pillars that guarantee responsible management of a Company. In recent years, the ethical conduct of listed companies has come under increased scrutiny by markets, regulators and society in general. Among other factors, the financial performance of ENDESA, S.A. is conditioned by strict compliance with ethical standards and principles, both internally and as regards its external relationships. Thus, ENDESA, S.A.'s ethical conduct has paved the way for the generation of trust among its shareholders and investors, and has become a differentiating factor of the company brand in building investee company customer loyalty, evidenced by its economic results which, in turn, contribute to consolidate ENDESA, S.A.'s leadership and benchmark status in the market.

Enquiries conducted by ENDESA, S.A. in 2017 with its most significant stakeholders revealed the following primary aspects associated with management of integrity and ethical conduct: integrity in the organisational model and management of good corporate conduct, transparency in communications (financial, tax-related and sustainability) and relationships with institutions.

Through its Sustainability Plan and the implementation of an ethics compliance model, ENDESA, S.A. has responded to these expectations and establishes objectives and actions in this respect at the corporate level to be followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the corporate governance objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Fighting corruption and bribery in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Policies implemented by the Company regarding Corruption and Bribery.

ENDESA, S.A. is fully committed to complying with the ethical principles and all current legislation and regulations governing its relationships with its stakeholders, and in all the activities it undertakes.

The Company has in place a Code of Ethics, a Zero Corruption Tolerance Plan and other rules, in accordance with the most advanced "compliance" models, which set forth the values, commitments and ethical responsibilities taken on by all its employees. Furthermore, among other aspects, ENDESA, S.A. has established specific procedural protocols to guide the actions of its employees in relation to the acceptance and offering of gifts and courtesies, and to dealings with civil servants and authorities.

Likewise, ENDESA, S.A. has a criminal offence prevention model that complies with the regulations applicable to the Group in the area of the criminal liability of the legal entity. The document entitled "General Principles for the Prevention of Criminal Risk" contains a summary of the guiding principles of action also applicable to all employees. These encompass the key Company values to achieve its business objectives and to prevent the occurrence of criminal risks within the Company.

The Code of Ethics, the Zero-Tolerance Plan Against Corruption, the General Principles for Criminal Risk Prevention, the Protocol for Best Practices in Dealing with Civil Servants and Public Authorities and the Corporate Integrity Protocols can be found on the website: <https://www.endesa.com/es/inversores/a201611-conducta-etica.html>.

2.1. Code of Ethics.

The Code of Ethics is comprised by:

- 16 General Principles governing relations with stakeholders that define benchmark business values at ENDESA, S.A.
- The Standards of Conduct for dealing with each stakeholder, enshrining the specific guidelines and rules which ENDESA, S.A. professionals must adhere to in order to uphold the general principles and avoid unethical conduct.
- The Implementation Mechanisms, describing the organisational structure of the Code of Ethics, responsible for ensuring that all employees are aware of, understand and comply with the Code.

Likewise, as established by the Code of Ethics, ENDESA, S.A. does not finance political parties, their representatives or candidates, either in Spain or abroad, nor does it sponsor conferences or parties whose sole purpose is political propaganda.

It abstains from any manner of direct or indirect pressure on political exponents (e.g., resulting from public tender awards to ENDESA, S.A., acceptance of suggestions for contracts, consultancy agreements, etc.).

2.2. Zero Tolerance Plan against Corruption.

ENDESA, S.A. has an anti-corruption plan in place: the Zero Tolerance Plan against Corruption, which represents the Company's specific commitment to the fight against corruption and its total rejection of any of its forms, in compliance with Principle 10 of the Global Compact, of which ENDESA, S.A. is a signatory: "Businesses should work against corruption in all its forms, including extortion and bribery".

2.3. Anti-Bribery Policy.

In 2017, the "Criminal and Anti-Bribery Regulatory Compliance Policy" was included in these internal regulatory instruments which, together with those cited above, constitute the ENDESA, S.A. Group's "Criminal and Anti-Bribery Regulatory Compliance Management System", which is an integrated body of provisions that not only comply with the Spanish legal requirements in this area, but which are also sufficient to meet the expectations reasonably deposited in the organisations that operate with the highest levels of commitment in advanced markets as ENDESA, S.A. does.

ENDESA, S.A. is aware that certain criminal acts identified under the generic name of "bribes" constitute a phenomena which, among other effects, raises serious moral, economic and political concerns, undermines good governance, hinders development, destroys confidence in the institutions and interferes in the correct and efficient functioning of markets. Accordingly, the Criminal Regulatory Compliance System pays special attention to the prevention, detection and adequate reaction against such strictly forbidden conduct, transmitting the importance of the contribution of the entire organisation to the fight against all manner of "bribery".

The main procedures that ENDESA, S.A. will perform on an on-going basis to effectively apply the Criminal Regulatory Compliance System are as follows;

- Evaluation of risks and control activities. The identification of activities in which criminal offences may be committed are coordinated by the Supervision Committee and by the process heads within the Organisation.
- Supervision activities: Criminal Regulatory Compliance System, action plans to affront shortcomings, response to non-compliance and information and communication.

2.4. Criminal Risk Prevention Model.

ENDESA, S.A. has a Criminal Risk Prevention Model (the Model), which provides the Company with a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the Company, complying with the Spanish Criminal Code on the criminal liability of legal persons, a system introduced into the Spanish legal system in 2010.

The Audit and Compliance Committee is tasked with supervising the functioning of and compliance with the Model and the functions of the Supervision Committee, responsible, among other tasks, for the monitoring of and compliance with the Model. The Supervision Committee consists of the Audit Director, the General Secretary and Secretary of the Board of Directors (who is the Committee Chair), the Director of Corporate Legal Counsel and Compliance, the Director of Business Legal Counsel and the Director of Human Resources and Organization.

In 2017, the Supervision Committee met on six occasions and, at those sessions, it monitored the main matters relating to the Model, even envisaging the involvement of heads from different areas of the Company to inform the Committee on significant matters relating to its competencies.

At the beginning of each year, the Supervision Committee prepares an Activity Programme, in which it establishes priorities in line with qualitative criteria based on a risk approach, for the development of which, and based on the powers granted and on the specialisation required, it leans on the Audit, Legal Counsel and Corporate Matters and the Human Resources and Organisation Departments. Furthermore, once a year, it submits a report on the execution of the programme to the Audit and Compliance Committee, including details of the activities performed and the conclusions reached.

Noteworthy among the activities performed in 2017 were as follows:

- The review, update and assessment of events involving the risk of offences and the adaptation and update of their mitigating controls included in the Model's matrix;
- Verification of the adequate effectiveness and functioning of the Criminal Risk Prevention Model, through a review of the adequate design and operation and testing of certain control activities;
- The performance of various initiatives aimed at informing and training employees on the framework of ethical reference and of criminal prevention compliance in force at ENDESA, S.A.
- The simultaneous obtainment of the certificates accrediting the Criminal Compliance Management System, in accordance with the UNE 19601:2017 standard and an anti-bribery management system in conformity with the UNE-ISO 37001 standard.

Of the activities performed in the year, it was concluded that the Criminal Risk Prevention Model at ENDESA, S.A. is operative at all significant Group companies, and that it is being effectively executed and is generally suitable to reduce the risks of committing offences defined in the applicable regulations.

3. Cases of Corruption Complaints and Corrective Measures taken.

In 2017, ENDESA, S.A. received a total of 3 complaints, either through its Ethical Channel or through other means. The investigation of all of them was completed in the same year. Of the complaints received, there were no verified cases of non-compliance with the Code of Ethics relating to Company fraud and conflicts of interest. None of the complaints received related to cases of discrimination.

ENVIRONMENTAL SUSTAINABILITY

1. Business Model.

Impacts, risks and opportunities of Greenhouse Gas (GHG) emissions, scope 1, of the reduction of Greenhouse Gas (GHG) emissions, of the impact of Greenhouse Gas (GHG) emissions arising from transportation and from the consequences of climate change).

For ENDESA, S.A., the fight against climate change is one of the greatest challenges that must currently be faced by companies, and the electric utility is aware that the energy sector is one of the most affected industries.

ENDESA, S.A. occupies a leading position in the fight against global warming by the European Union. In this context, the challenge of the decarbonisation of the energy mix is examined, together with the opportunities arising from such challenge.

Strategic Plan implemented by ENDESA, S.A. aims to consolidate its leadership position on the markets in which it operates through investee companies, taking into account the impact of climate change on the energy business model and the transition to a new energy eco-system, reducing the risks represented by its business, and maximising the opportunities that will be offered by this transition and this new eco-system.

ENDESA, S.A. has an ambitious plan to reduce emissions for the decarbonisation of its energy mix in 2050, in line with the targets set at Spanish and European level with the 2050 Road Map and the 2030 Energy and Climate Package.

The strategy implemented by ENDESA, S.A. is to invest in low-coal generation technologies and to increase the value of coal-free energy production through its investee companies. Increased public incentives to invest in smart grids and renewable energies represent an opportunity for ENDESA, S.A. Accordingly, in 2016, ENDESA Generación, S.L.U. acquired 60% of the share capital of ENEL Green Power España, S.L.U., a company in which it previously held a 40% holding, in order to comply with the 2050 decarbonisation objective. This investment is the result of the commitment acquired by the Company in the search for new opportunities and technologies that generate value and with respect to which it will continue to work in the future.

In order to consolidate its commitment to the decarbonisation road map, ENDESA, S.A. awarded 879 MW of wind and solar power in the 2017 auctions, through ENEL Green Power España, S.L.U., in which it expects to invest 870 million euros until 2020.

It is important to highlight that the decarbonisation drive at European level has, to date, focused especially on the energy sector, giving increasing significance to the policies tied to the transport sector, responsible for almost 25% of total emissions in the European Union, with road transport being the highest emitter, with more than 70% of total transport GHG emissions in 2014.

Recently, a provisional agreement was approved on the regulations to distribute the drive to guarantee new emission reductions in sectors outside the scope of the European Union's emission rights trading system for 2021-2030. The goal of the European Union to reduce emissions in non-ETS sectors is 30% for the 2021-2030 period. To ensure fair distribution of diffuse emission reduction efforts, the new regulation establishes binding goals so countries comply with the European target. Spain must reduce its CO₂ emissions associated with the non-ETS sector by 26% with respect to its 2005 levels, by 2030, under the agreement reached, which maintains the distribution initially proposed by the European Commission, as confirmed by the institution and European sources.

Transport emissions in Spain have increased nearly 50% since 1990. The transport industry is one of the main sources of carbon dioxide (CO₂) emissions in the Spanish economy, representing nearly 27% of all emissions, according to the Provisional Results of the Greenhouse Gas Inventory (GGE) published in 2016 by the Ministry of Agriculture and Fishing, Food and the Environment (MAPAMA). Therefore, one of the basic objectives of the future Climate Change and Energy Transition Act will be to promote a policy for sustainable transport and mobility.

For all the aforementioned reasons, the fundamental challenge of developed societies regarding mobility is to evolve towards low coal consumption economic models and to reduce pollution, primarily in cities. ENDESA, S.A. aspires to lead the response to this challenge by promoting electrification of the energy demand and efficient consumption, by developing plans and programmes intended to enhance electrical mobility, smart grids and energy efficiency.

2. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified the decarbonisation of the energy mix and the minimisation of environmental impacts as the most significant environmental aspects to promote a sustainable business model and, accordingly, with respect to which the businesses carried out by its investee companies must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

ENDESA, S.A. includes the material aspects detected in its corporate sustainability plans and establishes quantitative objectives intended to encourage management excellence within those plans, thereby allowing the level of commitment and performance achieved to be measured at the corporate level and followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the environmental sustainability objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Environmental Sustainability in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

3. Environmental Policy.

ENDESA, S.A. approved and published its first environmental policy in 1998. Since then, it has evolved to adapt to the current environmental concerns.

ENDESA, S.A. considers environmental excellence to be a fundamental value in its business culture. Accordingly, it performs its activities by respecting the environment, in line with sustainable development principles, and is firmly committed to the conservation and sustainable use of its resources. Its policy is based on nine basic procedural principles, as detailed below, which refer to the Company and its investee companies:

- Integration of environmental management and the concept of sustainable development into corporate strategy, using environmental criteria documented in the planning and decision-making processes, and in the analyses of new business opportunities, mergers or new acquisitions.
- Permanent monitoring, at all locations, of compliance with the legislation in force and with the voluntary agreements acquired, and regular reviews of its plants' environmental performance and safety, reporting on the results obtained.
- Establishment of adequate management systems, based on continual improvement and aimed at preventing pollution.

- Sustainable use of energy and water resources and raw materials, and the measurement and reduction of the environmental impact by applying the best techniques and practices available.
- Protection, preservation and enhancement of biodiversity, ecosystems and its services during operations associated with its business; reducing negative impacts to a minimum and compensating for residual impact, focused on the goal of No Net Loss of Biodiversity.
- Contribution to the fight against climate change through gradual decarbonisation of the energy mix, fostering the development of renewable energies, energy efficiency and the application of new technologies.
- Awareness raising of and sensitivity to environmental protection issues, through internal and external training programmes and collaboration with public-sector authorities, institutions and citizens' associations in all areas in which it is active.
- Establishment of a constructive dialogue with public authorities, official bodies, shareholders, customers, local communities and other stakeholders.
- Encouragement to contractors and suppliers to implement environmental policies based on these same principles.

4. Key Performance Indicators.

These key environmental performance indicators at ENDESA, S.A. derived from the activities carried out by its subsidiaries, given that the consumption of fuel, energy, energy intensity, water, admissions and impact on air quality by ENDESA, S.A. is irrelevant compared to that of its investee companies, which are those that carry out operating industrial activities with relevant impacts on these indicators. The monitoring of these indicators is therefore performed on a consolidated basis. For further information see the chapter on Environmental Sustainability in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

HUMAN RESOURCES

1. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified the development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Promotion of human capital: For ENDESA, S.A. its employees constitute the main company asset to create value in a sustainable manner. Likewise, in a climate of change towards a new energy model, having human capital with the best abilities, which is as diverse as possible and shows a strong commitment to the business project, is fundamental to lead such change. Accordingly, employment priorities at ENDESA, S.A. include management of diversity (especially gender and age), the reinforcement of internal culture, the availability of adequate work conditions, employment flexibility and meritocracy.

ENDESA, S.A. includes these priorities in its sustainability plans and establishes quantitative objectives at the corporate level to encourage management excellence in the human capital area, thereby allowing the level of commitment and performance achieved by ENDESA, S.A. and all of its investee companies to be evaluated.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the Human Resource objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Human Resources in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Human Capital Policies.

ENDESA, S.A. constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. In this regard, its Leadership Model and the Development of Talent, together with the *performance appraisal* processes and the development of people with potential guarantee development based on merit and on the contribution itself. Likewise, considering that the digital transformation means that the Company must adapt its value proposal to the new digital customer and adopt new technologies in its value chain, one of the leading challenges for the Company is the development of this digital culture. In this regard, ENDESA, S.A. is working to promote the change of the organisational culture and the way of doing of the Company.

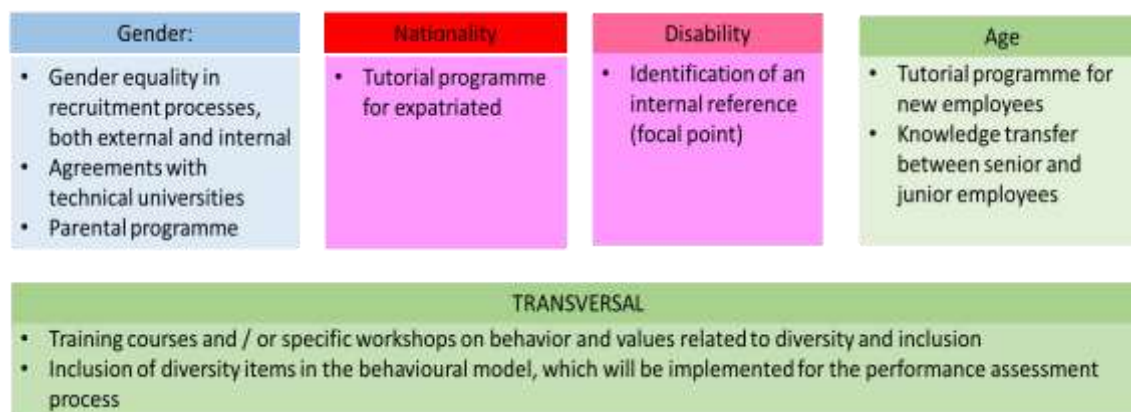
In the training area, ENDESA, S.A. establishes an annual plan to ensure the proper development of people within its Organisation, and to encourage the professional development of its staff.

Likewise, ENDESA, S.A. rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA, S.A. will do everything possible to encourage and maintain a climate of respect for the dignity, honour and individuality of people, and will ensure the highest standards of confidentiality with respect to any information related to employee privacy, of which it is aware. Also in compliance with the values and principles included in the Code of Ethics, and as a part thereof, ENDESA, S.A. adopts the following main principles:

1. Non-discrimination
2. Equal opportunities and dignity for all forms of diversity
3. Inclusion

4. Reconciliation of personal, family and professional life

On the basis of these principles, ENDESA, S.A. is committed to implementing specific measures to promote non-discrimination and inclusion in the following areas of diversity, by establishing the following plan of action:



In the same line, ENDESA, S.A. promotes gender equality in all areas of the Company, especially regarding positions of responsibility and employee recruitment.

ENDESA, S.A. guarantees the right to freedom of association for its employees and for all its contractors and suppliers.

3. Key Performance Indicators.

3.1. Newly Hired Employees / Workforce Rotation.

New hires are an important indicator, as provide a measurement of the Company's renewal and its adaptation to new trends.

New Recruitments	
2015	28
2016	39
2017	40

ENDESA, S.A. wishes to be an excellent company to work for, directly leading to a low staff turnover. The employee turnover rate in Spain in 2017 was 11.8, within the values expected by the Company.

3.2. Prior Notice Period for Operational Changes.

Existing Spanish employment legislation and the employment regulations followed by ENDESA, S.A. in Spain establish the criteria that should be adhered to in the event of business reorganisation and corporate restructuring. Thus, regulations establish that corporate restructuring and company reorganisation operations shall be made known to employee representatives at least 30 days before they come into effect.

3.3. Average Hours of Individual Employee Training per Year.

Having a trained workforce, constantly adapted to the new requirements for which the sector must be prepared, is a strategic pledge by ENDESA, S.A. to maintain its leadership. Accordingly, the average number of training hours per employee is a piece of data that backs up such strategy.

Average Hours of Individual Employee Training per Year, Broken Down by Gender and Professional Category	
Executives Training	
	2016
Men	23,1
Women	36,8
	2017
Men	41,3
Women	50,8
Middle Management Training	
	2016
Men	54,5
Women	53,8
	2017
Men	55,2
Women	53,5
Administration and Management Personnel Training	
	2016
Men	37,9
Women	35,1
	2017
Men	48,6
Women	37,3
Manual Worker Training	
	2016
Men	17
Women	-
	2017
Men	-
Women	-

3.4. Employee Diversity.

ENDESA, S.A. is also committed to diversity among its employees, as it believes that diversity is a significant contribution that serves to fortify the Company. The figures presented below show that over the past three years the percentage of women represent approximately 50% of the headcount, which is very notable and shows the company's firm commitment to gender diversity. With regard to age, they reflect a solid safe company in terms of senior staff which, at the same time, is gradually being renewed.

Breakdown of the Headcount by Gender			
	Year	Number	%
Women	2015	693	49,90%
	2016	712	51,20%
	2017	695	51,10%
Men	2015	697	50,10%
	2016	679	48,80%
	2017	665	48,90%
Total Staff	2015	1.390	
	2016	1.391	
	2017	1.360	

Breakdown of the Headcount by Age		
Under 28 years old	2015	25
	2016	22
	2017	24
28-34 years old	2015	146
	2016	122
	2017	100
35-44 years old	2015	515
	2016	522
	2017	523
45-54 years old	2015	477
	2016	482
	2017	488
55-59 years old	2015	209
	2016	202
	2017	181
Above 60 years old	2015	18
	2016	41
	2017	44

3.5. Cases of Discrimination and Corrective Measures Undertaken.

In 2017, there were no cases of discrimination at ENDESA, S.A., a fact which the Company periodically reports to its employee representatives.

4. Measures Adopted to Guarantee Equality.

4.1. Explanation of the Concepts of Diversity and Non-Discrimination.

The Diversity and Inclusion programmes are encompassed with the Human Rights policy approved by ENDESA, S.A on 24 June 2013, which includes respect for diversity and non-discrimination among its principles, with ENDESA, S.A. rejecting all manner of discrimination and maintaining its commitment to ensure that all employees, both current and potential, are treated with respect regarding their diversity, thereby promoting equal opportunities, be it on entering into an employee relationship or at any stage of their development.

The general principles followed by the Diversity and Inclusion programmes are as follows:

Non-discrimination

All employees are treated solely on the basis of their professional skills and abilities in all decisions affecting their employment relationship.

Accordingly, all manner of political, religious, national, ethical, racial, linguistic, gender or age discrimination is forbidden, together with any form of discrimination against personal characteristics such as personal beliefs, sexual orientation, trade union membership and activity, and any other form of social discrimination.

Under such principles, no type of harassment or intimidation will be acceptable.

Equal opportunities and dignity for all forms of diversity

Diversity is a value that should be sought after and enhanced and equal treatment and opportunities shall be guaranteed for all types of diversity.

Moreover, personal circumstances associated with reconciliation of personal, family and professional life shall not be construed as a reason for less favourable treatment.

Inclusion

ENDESA, S.A. is committed to establishing measures, practices, processes and services, with no restrictions of access to any of the parties involved, whether employees, customers or contractors.

All these persons shall have the opportunity to participate in the Company's processes and there shall be no explicit or implicit barriers for any unit, function, country, gender, religion, culture, belief, orientation, disability, age or any other manifestation of diversity.

Reconciliation of personal, family and professional life

ENDESA, S.A. promotes work-life solutions that support the actual daily needs of employees, in order to foster respect for all manner of situations facing people during their working life.

4.2. Explanation of How the Organisation Manages Diversity and Non-Discrimination.

ENDESA, S.A. defines its action plan for diversity and inclusion as follows:

Gender; in order to acknowledge, respect and manage the differences between men and women, while guaranteeing the development of talent and ensuring equal opportunities and treatment, the following measures are implemented:

- In both internal and external recruitment processes, Human Resources guarantee that there is equal representation of both sexes over the entire population under assessment during the initial stage of the process. When this is not possible, the reason is specified and registered.
- Human Resources establishes individual relationships with universities, aimed at identifying programmes and opportunities for collaboration that encourage participation and inclusion of female students, especially in colleges and technical schools.
- At ENDESA, S.A. parental programmes have been implemented, aimed at balancing the needs that people have as parents and their professional growth aspirations. They consist of a series of structured interviews between employees, their managers and Human Resources Business Partners (hereinafter, HRBP, who are the human resources professionals that work closely with the business line to identify its needs and cover them), optimising the professional development, well-being and satisfaction of employees) before and after maternity, to increase their value, both for the employee and for the Company. Furthermore, a tutor is assigned, on a voluntary basis, to employees that expect to request maternity leave.

Age; in order to acknowledge, respect and manage the differences between generations, guaranteeing the integration, motivation and transfer of knowledge, the following measures have been implemented:

- A tutorial programme has been implemented to support employees in their main transition periods (for example, during their recruitment). Such tutorial may be voluntarily requested, for a variable duration, based on the needs of each specific situation.
- The development of professional families was ensured by relying as far as possible on expert (senior) employees, who have conducted internal training.

Nationality; with the aim of recognising, respecting and managing differences between persons of different nationalities and fostering their integration, all expatriates were assigned a tutor from the country of destination to assist and support them during the period they were abroad.

Disability; in order to acknowledge, respect and manage the different disabilities of people within ENDESA, S.A., taking advantage of each person's potential, a reference person has been identified with respect to the disability. These persons provide support for the Human Resources Business Partners (HRBP), the corresponding Health and Safety units and managers and employees to deal with any matters concerning the disability in question and specifically for individuals with disabilities that impede the fulfilment of their needs and ambitions.

Transversal dimension; specific training workshops and/or courses on conduct and values regarding Diversity and Inclusion have been set up, especially for the professional family at Human Resources, newly hired employees and new managers.

Application of the Diversity and Inclusion Policy.

ENDESA, S.A. has drawn up a gender plan of action that includes the following lines of work:

- Increasing the percentage of women in the recruitment processes: fostering gender equality in recruitment processes, both external and internal, in the shortlist stage, that is, when deciding on the group of candidates who are eligible for interviews to select the final candidates.
- STEM: promoting agreements with universities and institutions to encourage the participation of female students in STEM studies (science, technology, engineering and mathematics).
- Parental programme: implementation of a programme aimed at balancing the needs that employees have as mothers and fathers and their professional growth aspirations.

5. Measures Taken to Apply the International Employment Conventions at the Company (ILO; OECD).

ENDESA, S.A. promotes respect for human rights, taking as a base, all agreements established by the International Labour Organisation (ILO), in all its commercial relations, the compliance of its contractors, providers and trade partners with the same principles, focusing particularly on conflictive and high-risk situations, the rejection of forced or mandatory labour and child labour, respect for diversity and non-discrimination, freedom of association and collective bargaining, occupational safety and health and fair and favourable working conditions.

For more information in this regard, please refer to Section Evaluation of ENDESA business activity, Labour Relations scope of application.

5.1. Employee Training on Human Rights Policies and Procedures.

Until now ENDESA, S.A. has not provided any specific comprehensive human rights training, although certain human rights matters have been directly and indirectly addressed in other courses given in 2017. However, in 2018, the Company will provide a special course on human rights aimed at all its employees.

For further information see the chapter on Human Resources in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

6. Company Management of the Right of Workers to be Informed and Consulted.

ENDESA, S.A. maintains a permanent dialogue with worker representatives, through which it seeks to establish collaboration that will benefit both the company and its employees. This dialogue complies with the rights to information and consultation of Employees' Representatives and includes negotiation of workers' conditions, if necessary.

As indicated in Point 3.2, ENDESA, S.A. complies with existing regulations and informs the Employees' Representatives of any changes in the organisation and the Company at least 30 days in advance.

Furthermore, the Company frequently performs a climate survey, whereby it identifies improvement areas on which to work to correct anything required.

The Managing Director also holds breakfast meetings with employees, where the latter can express their concerns and suggestions directly.

6.1. Inclusion Principle. How the Organisation has Responded to the Reasonable Interests and Expectations of Employees.

ENDESA, S.A. takes the steps required to respond to the improvement areas identified through the climate survey.

The Company maintains a permanent dialogue with worker representatives, through which it seeks to establish and maintain collaboration that benefits both the Company and its employees.

Similarly, different bodies exist at the Company to affront the negotiation processes required to adapt to Company needs.

As regards current labour regulations, the Company also complies with the rights to information and consultation of the Employees' Representatives, providing necessary information and counsel so the Employees' Representatives can carry out their labour union activities.

Lastly, it must be highlighted that in 2017 ENDESA, S.A. carried out various internal communication campaigns, such as work-life balance programmes, in order to promote the measures available for employees; another campaign on diversity, which includes the four main dimensions (gender, age, nationality and disability), and the launch of a survey to ascertain employee perception of internal notices.

OCCUPATIONAL HEALTH AND SAFETY (OHS)

1. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified occupational health and safety, together with development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Occupational Health and Safety: The optimal management of occupational health and safety has a direct effect on the economic performance of companies, since it increases productivity and reduces associated employment costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA, S.A. and the work that they perform. Consequently, this aspect is the fundamental pillar of sustainability at ENDESA, S.A., contributing to the Company's operating excellence.

ENDESA, S.A. includes these priorities in its sustainability plans and establishes quantitative objectives at the corporate level to improve occupational health and safety, thereby allowing the level of commitment and performance achieved by ENDESA, S.A. and all of its investee companies to be evaluated.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the Health and Safety objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Health and Safety in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Policies Implemented by the Company regarding Employee Occupational Health and Safety (OHS).

ENDESA, S.A. considers Occupational Health and Safety a priority and a fundamental value to preserve at all times for all who work for the Company, without distinction between own staff and its partner companies.

The integration of this goal in the strategy followed by ENDESA, S.A. materialised through the implementation of Occupational Health and Safety (OHS) policies at all the companies comprising the Group, the implementation of specific employment plans and the implementation of a single global system for observing work conduct.

ENDESA, S.A. also carries out various annual initiatives in its long-term strategy of continuous improvement in Occupational Health and Safety (OHS). The activities performed in 2017 were as follows:

- Once the phase of issuing reports corresponding to the Assessment of Psychosocial Risks has been concluded, in which the factors corresponding to all ENDESA, S.A. companies have been analysed, those preventive measures considered to positively lead to a reduction of the burden of psycho-social factors in occupations have been included in the preventive planning of all businesses. Likewise, a method has been designed to assess the effectiveness of the implementation of such measures at the Organisation.
- In line with the outcome of the 2016 Occupational Health and Safety (OHS) Climate survey, and following the identification of the different improvement aspects, in 2017, a series of

measures were taken of a diverse nature to foster knowledge, preventive culture and commitment in occupational risk prevention.

- Monographic sessions were held at the Staff Departments at ENDESA, S.A., and occupational and office risk awareness-raising campaigns were conducted.

3. Key Performance Indicators.

3.1. Types of Accidents and Frequency Rates, Occupational Diseases, Days Missed, Absenteeism and Number of Deaths due to Occupational Accidents or Diseases.

One of the material aspects identified by ENDESA, S.A. was Occupational Health and Safety (OHS). The optimal management of occupational health and safety has a direct effect on the economic performance of ENDESA, S.A., and on the attainment of its strategic objectives. The occupational health and safety (OHS) commitment of employees and contractors increases productivity and reduces absenteeism and associated indemnity costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA, S.A.

Accordingly, the following indicators are of the utmost importance for the Company, so they are monitored monthly, reflecting the Company's management in this regard.

	No. of Occupational Accidents ⁽¹⁾			Frequency Index ⁽²⁾			Seriousness Index ⁽³⁾		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
SPAIN	8	4	5	2,03	1,01	1,26	0,13	0,02	0,08
In House	-	-	-	0,00	0,00	0,00	0,00	0,00	0,00
Contractors	8	4	5	5,21	2,42	3,07	0,32	0,05	0,2

(1) Includes fatal accidents.

(2) Total number of accidents, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000,000.

(3) Total number of days missed due to accident, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000.

Absence Rate of ENDESA Employees ⁽¹⁾ (T.A. ⁽²⁾) ⁽³⁾			
	2015	2016	2017
Spain	2,33	2,35	2,22

(1) The days missed due to absence do not include holidays, public holidays, or authorised absence for family motives (maternity and paternity leave etc.), or training leave.

(2) Total number of working days missed through absence in the year with respect to the total number of days worked by group in this same period, multiplied by 200,000 (this factor corresponds to 50 working weeks of 40 hours for each 100 employees).

This Absenteeism rate does not include proportionately consolidated jointly controlled entities.

Days Missed Due To Absence Per Year			
	2015	2016	2017
Spain	8,422	8,078	7,644

	Fatal Accidents			Serious Accidents			Non-Serious Accidents		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
SPAIN	-	1	-	-	-	1	8	3	4
In House	-	-	-	-	-	-	-	-	-
Contractors	-	1	-	-	-	1	8	3	4

RESPONSIBLE RELATIONSHIP WITH THE COMMUNITIES

1. Material Aspects, Action Plans, Objectives and Results.

The Company has currently been strengthened, mainly due to the development of communication technologies that have increased connectivity between people and facilitated access to information. That has contributed to increase the willingness of local communities to actively participate in those matters that may affect them positively or negatively to a greater or lesser extent.

Moreover, social opposition to certain projects carried out by investee companies could generate costs associated with the delay in project execution or even lead to the actual freezing of such projects and, in any case, to a loss of confidence and social legitimacy vis-à-vis the Company.

Accordingly, in order to guarantee the sustainability of its business projects, the investee companies in which ENDESA, S.A. participates must integrate the expectations of its stakeholders at local level from the beginning, fostering the development of dialogue and responsible relations with the local communities, applying a Shared Value Creation Approach at all times, through which to generate value for the Company and society.

In this regard, corporate level enquiries conducted by ENDESA, S.A. in 2017 with its most significant stakeholders and its investee companies revealed the following primary aspects associated with management of the local communities: facilitate access to electricity of vulnerable groups, the mitigation of the impact of operations on the local communities and socio-economic development.

Through its Sustainability Plan and the implementation of a Share Value Creation approach, ENDESA, S.A. has responded to these expectations and establishes objectives and actions in this respect at the corporate level to be followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and responsible community relationships objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Responsible Community Relationships in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Relationship Policy with Local Communities.

ENDESA, S.A.'s commitment to the development of the communities in which it operates is encompassed in the Company's Shared Value Creation policy (SVC), which establishes the general principles, roles, responsibilities and procedures to be used to define, implement, finance, monitor and report the procedures, processes and projects of a social nature, through the Company's entire value chain and in all its business lines and functions.

The Shared Value Creation (SVC) Model pursues including Sustainability into the Company's strategy, increasing its competitive advantages, through the contribution of a shared value perspective that combines Company objectives with the priorities of the stakeholders.

The application of the Shared Value Creation (SVC) Model integrates specific analyses conducted proactively, enabling the obtainment of in-depth understanding of the local context, identifying the key priorities, risks, impacts and stakeholders related with the business asset/project. This is correlated with the Company's objectives. Therefore, actions and projects

are identified that may build long-term relationships with the local surroundings, which are included and specified in a Shared Value Creation (SVC) Plan.

These actions and projects relating to specific business projects/assets included in the Shared Value Creation (SVC) Plan must be aligned with the general strategy of ENDESA, S.A. and with the United Nations Sustainable Development Goals (SDGs), effectively and efficiently taking advantage of and optimising the ability and competency of the Company from an integrated perspective, which generates measured benefits for society, providing a response to its present and future requirements.

3. Key Performance Indicators.

ENDESA, S.A. wishes to play a role that contributes in a positive manner to the companies in which it is included, through its investee companies, going beyond the components of their business activity. This is demonstrated by the Company's social investment data which, according to the methodology of the London Benchmarking Group (LBG), amounts to 13.8 million euros at the consolidated level.

For further information regarding the key performance indicators in the local community relationship area, see the chapter on Local Community Relationships in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

SUPPLY CHAIN

1. Material Aspects, Action Plans, Objectives and Results.

The responsible management of the supply chain, based on the assessment of environmental, social and ethical performance, is today a key factor for the success of any company and long-term growth.

In order to reduce reputational and operational risks, responsible companies provide control mechanisms for purchasing and the arrangement of products and services that enable an assessment of whether the employees that intend to work with the Company comply with the requirements established and are aligned with the sustainable growth objectives and strategy.

Aware of the importance of the supply chain in the sustainable management of its business and that of its investee companies, ENDESA has considered this aspect within the consultation process that was carried out at the corporate level during 2017 with its stakeholders and investee companies, in order to identify the most relevant aspects that must be prioritized. In this regard, the result obtained reveals that the extension of the occupational health and safety commitment to contractors and suppliers is the most important aspect in the supply chain.

However, the control mechanisms of the supply chain established by ENDESA, S.A. and reinforced through the “Sustainable Supply Chain” project are aimed at assessing not only the occupational health and safety parameters, but they also include environmental criteria and criteria of honourability and respect for human rights.

In the Sustainability Plan, ENDESA, S.A. establishes the overall corporate objectives to promote the responsible management of its supply chain, incorporating occupational health and safety, environmental and respect for human rights objectives in this regard.

ENDESA, S.A. and its investee companies manage suppliers on a centralized basis. Furthermore, the volume of purchases and suppliers at the individual level of ENDESA, S.A. is irrelevant compared to that of its investee companies, which of those that carry out industrial operating activities and have significant purchasing volume requirements. Accordingly, in order to promote the responsible management of the supply chain, ENDESA, S.A. has an integrated purchasing process that it applies to all of its businesses and all of its investee companies. For further information see the chapter on the Supply Chain in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

2. Policy.

In order to promote responsible management in the supply chain, ENDESA, S.A. and its investee companies has an integral purchasing process, which requires suppliers to be rated in accordance with sustainability criteria (environmental, social, ethical, integrity, human rights), and with technical and economic criteria, prior to the tender process and the signing of the contract.

The supplier rating system in 2017 was applied to a series of strategic purchasing families, for those activities that require major investment and have a greater impact with respect to security and the environment and which, in 2017, accounted for 63% of the total purchasing volume.

The supplier rating system, which commenced in 2009 to reinforce compliance with the applicable legal, employment, security and environmental protection regulations was enacted as envisaged. It determines whether a supplier complies with the requirements to work with ENDESA, S.A. This system specifically assesses, aside from compliance with the legal requirements, economic-

financial solvency and technical capacity, the level of compliance of the supplier in the sustainability area, in line with previously-defined criteria, based on the risk associated with the purchasing family to which the supplier belongs:

- Assessment of compliance with human rights regulations
- Assessment of compliance with environmental regulations.
- Assessment of compliance with occupational safety regulations.

The sustainability requirements for new rating files will enter into force in April 2017, and will apply to all supplier bases in families subject to rating from March 2018.

Furthermore, forming part of the sustainability requirements in the environmental and security areas, the need was established to obtain the related management system certifications in such areas, in conformity with the ISO 14.001 and OHSAS 18001 standards for activities designated as high risk.

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(Free translation from the Original Independent Limited Assurance Report in Spanish dated February 26, 2018. In case of any discrepancy, the Spanish version always prevails.)

INDEPENDENT LIMITED ASSURANCE REPORT ON THE STATEMENT OF NON-FINANCIAL INFORMATION OF ENDESA, S.A.

To the Board of Directors of Endesa, S.A.

Scope of work

We have carried out a limited assurance engagement on the non-financial information contained in the non-financial information statement of ENDESA, S.A. for the year ended December 31, 2017, prepared in accordance with Royal Decree-Law 18/2017 of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures as explained in section 1.5 "Criteria for the preparation of the Statement of non-financial information".

Responsibility of the directors

ENDESA, S.A.'s directors are responsible for the preparation, content, and presentation of the Non-financial Information Statement in conformity with Royal Decree-Law 18/2017, of November 24. This responsibility includes the design, implementation, and maintenance of the internal control considered necessary to ensure that non-financial information statement is free of material misstatement, due to fraud or error.

The directors of ENDESA, S.A. are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information is obtained for preparing the non-financial information.

Our responsibility

Our responsibility is to issue a report of limited assurance based on the procedures we carried out and the evidence we obtained. We have performed our limited assurance work in accordance with the stipulations of International Standard on Assurance Engagements 3000 (ISAE), "Assurance engagements other than Audits and Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

In limited assurance work, the procedures carried out vary in their nature and timing and cover less material than those carried out in reasonable assurance work and, therefore, the assurance provided is also less.

The procedures we carried out for purposes of this engagement are based on our professional judgment and consisted in the formulation of questions for Management and the application of certain analytical procedures and review tests by sampling. Specifically, the following procedures were performed:

- Reading and gaining an understanding of the information prepared by ENDESA, S.A. and included in the non-financial information statement and evaluation as to whether said information encompasses all the content required by Royal Decree-Law 18/2018, of No 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.
- Interviewing those in charge of the preparation of the non-financial information statement for the purpose of gaining an understanding of the policies applicable to ENDESA, S.A. in terms of environmental and social matters, as well as personnel, respect for human rights, the fight against corruption, bribery, and the results of those policies, as well as the principle risks related to these matters.
- Analyzing the processes for compiling and validating the non-financial information contained in the consolidated non-financial information statement.
- Verifying the processes put in place by the Group to determine material matters as well as the participation of stakeholders in them.
- Verifying, via review tests on a sample basis, the quantitative and qualitative information related to the indicators disclosed in the report included the GRI content index, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide a limited level of assurance.
- Obtaining a representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the non-financial information statement.

Our independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable.

Conclusions

As a result of the procedures performed and of the evidence obtained, no matter has come to our attention that would cause us to conclude that the non-financial information contained in the non-financial information statement of ENDESA, S.A. for the year ended December 31, 2017 contain significant errors or have not been prepared in accordance with Royal Decree-Law 18/2017, of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.

Other matters

This report can under no circumstances be considered an audit carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

María del Tránsito Rodríguez Alonso

February 26, 2018

The Management Report of **ENDESA, Sociedad Anónima** for fiscal year ending December 31, 2017, as provided herein, was drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 26, 2018** and is hereinbelow signed by all of its Directors in compliance with Article 253 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*).

Borja Prado Eulate Chairman	Francesco Starace Vice Chairman
José Damián Bogas Gálvez Chief Executive Officer	Alejandro Echevarría Busquet Director
Ignacio Garralda Ruiz de Velasco Director	Maria Patrizia Grieco Director
Francisco de Lacerda Director	Alberto de Paoli Director
Helena Revoredo Delvecchio Director	Miguel Roca Junyent Director
Enrico Viale Director	

Madrid, February 26, 2018

Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

ENDESA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2017

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 40)

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of
ENDESA, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ENDESA, S.A. (the Parent Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements, give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of non-financial assets

Description	At year-end 2017, the Group recognized property, plant, and equipment under non-current assets in the amount of 21,727 million euros, intangible assets totaling 1,196 million euros, and goodwill amounting to 459 million euros. The recoverable amount of the above assets is subject to the existence of potential impairment, which is determined based on complex estimates and assumptions made by Group Management using criteria, judgments, and hypotheses. We consider this to be a key audit matter due to the significant amounts and the inherent complexity of assigning a value to key assumptions made and changes therein. The Group applied the following key criteria and hypotheses: Electricity and gas demand, regulatory measures, average hydraulic and wind energy, installed capacity, production mix determination, sales and energy purchase prices, electricity and gas sales prices, fuel costs, fixed costs, as well as discount and growth rates. Additional information on the criteria applied by Group Management, as well as key assumptions used during the determination of impaired value of non-financial assets is disclosed in Note 3.e) of the accompanying consolidated financial statements.

Our response Our audit procedures include, among others, the following:

- U Understanding the processes established by Group Management to determine impairment of the value of non-financial assets, including assessment of the design and implementation of relevant controls.
- U Reviewing the model used by Group Management with the assistance of our valuation specialists, encompassing its mathematical coherence, reasonableness of the projected cash flows, discount rates, and long-term growth rates, as well as the outcome of the sensitivity analyses carried out by Group Management. Throughout the performance of our work, we held interviews with the business heads, using renowned external sources to contrast data and other available information.
- U Review disclosures included in the accompanying consolidated financial statements in accordance with the applicable financial reporting framework.

Revenue recognition. Electricity and gas sales supplied yet not billed

Description	At year-end 2017, the Group recognized 1,021 million euros and 433 million euros on the consolidated income statement for electricity and gas sales, respectively, which have been supplied but thus far have not yet been billed; this is due to the fact that the customary meter reading does not coincide with the financial statements year end. The valuation of these unbilled sales is based on a series of complex estimates requiring the application of certain criteria, judgments, and hypotheses by Group Management.

The main estimates to which Group Management applies criteria and hypotheses to determine these unbilled sales are the following: energy consumption, energy costs, average selling prices, and toll costs.

Information on the Group's income recognition criteria, as well as a breakdown of sales pending billing are disclosed in Notes 3.ñ) and 13, respectively, of the accompanying consolidated financial statements.

Our response Our audit procedures include, among others, the following:

- U** Understand Group criteria and procedures used to estimate billed sales, including verifying the effectiveness of relevant controls.
- U** Analyze Group energy balance to verify the reasonableness of the hypotheses applied (consumption, cost, prices), comparing the results obtained against business performance, prior years' experience, data and historical trends.
- U** Perform substantive analytical procedures involving a review of energy consumption trends, costs, average prices, and toll costs, as well an analysis of correlations between associated accounts.

Provisions for litigation, termination benefits, and other legal or contractual obligations

Description At year end, the Group recognized provisions for litigation, termination benefits, and other legal or contractual obligations totaling 725 million euros, of which 701 million euros are recognized as non-current and 24 as current liabilities.

Group Management makes complex estimates and applies certain judgments and hypotheses to value these provisions.

We have considered this a key audit matter due to the complexity of assigning value to the main assumptions considered, as well as how changes therein might have a significant effect on the consolidated statement of financial position, and on the consolidated income statement, considering the significance of the amounts of the recognized provisions.

Disclosures for the recognition and valuation criteria used on these provisions, as well as the breakdown of these provisions in accordance with their nature, which are recognized as current and non-current liabilities are respectively included under Notes 3.k), 17 and 24 of the accompanying consolidated financial statements.

Our response Our audit procedures include, among others, the following:

- U** Understand the processes applied by Group Management to estimate provisions, including assessment of the design and implementation of relevant controls.
- U** Obtain confirmation letters from the internal and external legal advisors of the Group.
- U** Involve our internal legal specialists to analyze the reasonableness of the risk analysis, and its comparison with the conclusions reached by Group advisors, and interviews with them, where deemed necessary.
- U** Review disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

Changes in IT systems

Description The Group's IT system is integrated by a group of complex IT applications which are essential in the Group's diverse operations, and fundamental in treating and generating financial information. In 2017, a transformation was made to optimize IT application maps designed to better integrate and standardize systems. This IT transformation process is relevant for our audit due to its impact on the accounting of transactions, as well as the presentation of the financial information.

Our response In collaboration with our IT specialists, our audit procedures include, among others, the following:

- U** We held conversations with Group Management to gain a clear understanding of the modifications made to the applications map and affected process, paying special attention to those which have a relevant impact on the obtainment and handling of financial information.
 - U** We have carried out procedures to verify the correct migration of the financial data to the new applications.
 - U** We have performed procedures to evaluate the design and effectiveness of general controls established by the Group Management on its IT systems, including those on access and application changes, relevant automatic controls of applications, and others which mitigate risks identified as a result of the transformation process.
-

Other information: consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the Parent Company's Directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.
- b) A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the Parent Company's Directors and the Audit and Compliance Committee for the consolidated financial statements

The Directors of the Parent Company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and consolidated results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors of the Parent Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Compliance Committee of the Parent Company is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- U Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- U Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- u Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Parent Company.
- u Conclude on the appropriateness of the use, by the Directors of the Parent Company, of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- u Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- u Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee of the Parent Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee of the Parent Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee of the Parent Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the Audit and Compliance Committee of the Parent Company

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee of the Parent Company on February 26, 2018.

Term of engagement

The annual general shareholders' meeting held on April 26, 2017 appointed us as auditors for 3 years, commencing for the year ended December 31, 2017.

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since January 1, 2011.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

José Agustín Rico Horcajo

February 26, 2018

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

**Consolidated Financial Statements for
the year ended 31 December 2017**

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AT 31 DECEMBER 2017 AND 2016

Millions of Euros

	Notes	31 December 2017	31 December 2016 ⁽¹⁾
ASSETS			
NON-CURRENT ASSETS		25,507	25,525
Property, plant and equipment	6	21,727	21,891
Investment property	7	9	20
Intangible assets	8	1,196	1,172
Goodwill	5 and 10	459	298
Investments accounted for using the equity method	11.1	205	208
Non-current financial assets	19	769	712
Deferred tax assets	22.1	1,142	1,224
CURRENT ASSETS		5,530	5,435
Inventories	12	1,267	1,202
Trade and other receivables	13	3,100	3,452
Trade receivables		2,877	3,055
Current income tax assets		223	397
Current financial assets	19	764	363
Cash and cash equivalents	14	399	418
Non-current assets held for sale and discontinued operations		-	-
TOTAL ASSETS		31,037	30,960
EQUITY AND LIABILITIES			
EQUITY	15	9,233	9,088
Of the Parent	15.1	9,096	8,952
Share capital		1,271	1,271
Share premium and reserves		7,155	7,049
Profit for the year of the Parent		1,463	1,411
Interim dividend		(741)	(741)
Valuation adjustments		(52)	(38)
Of non-controlling interests	15.2	137	136
NON-CURRENT LIABILITIES		14,269	14,351
Deferred income	16	4,730	4,712
Non-current provisions	17	3,382	3,714
Provisions for pensions and similar obligations	17.1	951	1,063
Other non-current provisions		2,431	2,651
Non-current interest-bearing loans and borrowings	18	4,414	4,223
Other non-current liabilities	21	646	601
Deferred tax liabilities	22.2	1,097	1,101
CURRENT LIABILITIES		7,535	7,521
Current interest-bearing loans and borrowings	18	978	1,144
Current provisions	24	425	567
Provisions for pensions and similar obligations		-	-
Other current provisions		425	567
Trade payables and other current liabilities	23	6,132	5,810
Suppliers and other payables		5,962	5,478
Current income tax liabilities		170	332
Liabilities associated with non-current assets classified as held for sale and discontinued operations		-	-
TOTAL EQUITY AND LIABILITIES		31,037	30,960

(1) See Note. 5.4.

The accompanying Notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated statements of financial position at 31 December 2017 and 2016.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED

31 DECEMBER 2017 AND 2016

Millions of Euros

	Notes	2017	2016
INCOME	25	20,057	18,979
Revenue	25.1	19,556	18,313
Other operating income	25.2	501	666
PROCUREMENTS AND SERVICES		(14,569)	(13,327)
Power purchased	26.1	(4,933)	(4,056)
Cost of fuel consumed	26.2	(2,294)	(1,652)
Transmission costs		(5,652)	(5,813)
Other variable procurements and services	26.3	(1,690)	(1,806)
CONTRIBUTION MARGIN		5,488	5,652
Work carried out by the Group for its assets	3a and 3d.3	222	117
Personnel expenses	27	(917)	(1,128)
Other fixed operating expenses	28	(1,251)	(1,209)
GROSS PROFIT FROM OPERATIONS		3,542	3,432
Depreciation and amortisation, and impairment losses	29	(1,511)	(1,467)
PROFIT FROM OPERATIONS		2,031	1,965
NET FINANCIAL PROFIT/(LOSS)	30	(123)	(182)
Financial income		51	44
Financial expense		(178)	(222)
Net exchange differences		4	(4)
Net profit/(loss) of companies accounted for using the equity method	11.1	(15)	(59)
Gains/(losses) from other investments		-	2
Gains/(losses) on disposal of assets	31	7	(16)
PROFIT/(LOSS) BEFORE TAX		1,900	1,710
Income tax expense	32	(427)	(298)
PROFIT AFTER TAX FOR THE PERIOD FROM CONTINUING OPERATIONS		1,473	1,412
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS		-	-
PROFIT FOR THE YEAR		1,473	1,412
Parent company		1,463	1,411
Non-controlling interests		10	1
BASIC NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		1.38	1.33
DILUTED NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		1.38	1.33
BASIC NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		-	-
DILUTED NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		-	-
BASIC NET EARNINGS PER SHARE (Euros)		1.38	1.33
DILUTED NET EARNINGS PER SHARE (Euros)		1.38	1.33

The accompanying Notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated income statements for the years ended 31 December 2017 and 2016.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

Millions of Euros

Notes	31 December 2017			31 December 2016		
	Of the Parent	Of Non-controlling interests	Total	Of the Parent	Of Non-controlling interests	Total
PROFIT FOR THE YEAR	1,463	10	1,473	1,411	1	1,412
OTHER COMPREHENSIVE INCOME:	-	-	-	-	-	-
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	165	-	165	(83)	-	(83)
Items that can be reclassified to profit or loss:	65	-	65	90	-	90
From revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets	-	-	-	-	-	-
From measurement of financial instruments	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Other income/(expenses)	-	-	-	-	-	-
Cash flow hedges	15.1.6 and 15.1.10	86	86	126	-	126
Translation differences	15.1.6 and 15.1.10	(1)	(1)	1	-	1
Companies accounted for using the equity method	15.1.6 and 15.1.10	1	1	(5)	-	(5)
Other income and expenses recognised directly in equity	-	-	-	-	-	-
Tax effect	15.1.6, 15.1.10 and 32	(21)	(21)	(32)	-	(32)
Items not to be reclassified to profit or loss in subsequent periods:	100	-	100	(173)	-	(173)
From actuarial gains and losses and other adjustments	15.1.10 and 17.1	127	127	(221)	-	(221)
Tax effect	15.1.10 and 32	(27)	(27)	48	-	48
AMOUNTS TRANSFERRED TO INCOME STATEMENT AND/OR INVESTMENTS	(79)	-	(79)	(8)	-	(8)
From measurement of financial instruments	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Other income/(expenses)	-	-	-	-	-	-
Cash flow hedges	15.1.6 and 15.1.10	(108)	(108)	(22)	-	(22)
Translation differences	-	-	-	-	-	-
Companies accounted for using the equity method	15.1.6 and 15.1.10	2	2	9	-	9
Other income and expenses recognised directly in equity	-	-	-	-	-	-
Tax effect	15.1.6, 15.1.10 and 32	27	27	5	-	5
TOTAL COMPREHENSIVE INCOME	1,549	10	1,559	1,320	1	1,321

The accompanying Notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE

YEAR ENDED 31 DECEMBER 2017

Millions of Euros

	Notes	Equity attributable to the Parent (Note 15.1)					Non-controlling interests (Note 15.2)	Total equity	
		Capital and reserves							
		Share capital	Share premium, reserves and interim dividend	Treasury shares and own equity instruments	Profit for the year	Other equity instruments			Valuation adjustments
Balance at 1 January 2017		1,271	6,308	-	1,411	-	(38)	136	9,088
Adjustments due to changes in accounting policies		-	-	-	-	-	-	-	-
Corrections of errors		-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2017		1,271	6,308	-	1,411	-	(38)	136	9,088
Total comprehensive income		-	100	-	1,463	-	(14)	10	1,559
Transactions with shareholders or owners		-	(1,405)	-	-	-	-	(9)	(1,414)
Capital increases/(reductions)		-	-	-	-	-	-	-	-
Conversion of liabilities into equity		-	-	-	-	-	-	-	-
Dividends paid	15.1.9	-	(1,411)	-	-	-	-	(3)	(1,414)
Transactions with treasury shares or own equity instruments (Net)		-	-	-	-	-	-	-	-
Increases/(reductions) due to business combinations		-	-	-	-	-	-	-	-
Other transactions with shareholders or owners	2.3.1	-	6	-	-	-	-	(6)	-
Other changes in equity		-	1,411	-	(1,411)	-	-	-	-
Share-based payments		-	-	-	-	-	-	-	-
Transfers between equity items		-	1,411	-	(1,411)	-	-	-	-
Other changes		-	-	-	-	-	-	-	-
Balance at 31 December 2017		1,271	6,414	-	1,463	-	(52)	137	9,233

The accompanying Notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE

YEAR ENDED 31 DECEMBER 2016

Millions of Euros

	Notes	Equity attributable to the Parent (Note 15.1)					Non-controlling interests (Note 15.2)	Total equity	
		Capital and reserves							
		Share capital	Share premium, reserves and interim dividend	Treasury shares and own equity instruments	Profit for the year	Other equity instruments			Valuation adjustments
Balance at 1 January 2016		1,271	6,799	-	1,086	-	(120)	3	9,039
Adjustments due to changes in accounting policies		-	-	-	-	-	-	-	-
Corrections of errors		-	-	-	-	-	-	-	-
Adjusted Balance at 1 January 2016		1,271	6,799	-	1,086	-	(120)	3	9,039
Total comprehensive income		-	(173)	-	1,411	-	82	1	1,321
Transactions with shareholders or owners		-	(1,404)	-	-	-	-	132	(1,272)
Capital increases/(reductions)		-	-	-	-	-	-	-	-
Conversion of liabilities into equity		-	-	-	-	-	-	-	-
Dividends paid	15.1.9	-	(1,404)	-	-	-	-	(3)	(1,407)
Transactions with treasury shares or own equity instruments (net)		-	-	-	-	-	-	-	-
Increases/(reductions) due to business combinations	5	-	-	-	-	-	-	135	135
Other transactions with shareholders or owners		-	-	-	-	-	-	-	-
Other changes in equity		-	1,086	-	(1,086)	-	-	-	-
Share-based payments		-	-	-	-	-	-	-	-
Transfers between equity items		-	1,086	-	(1,086)	-	-	-	-
Other changes		-	-	-	-	-	-	-	-
Balance at 31 December 2016		1,271	6,308	-	1,411	-	(38)	136	9,088

The accompanying Notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED

AT 31 DECEMBER 2017 AND 2016

Millions of Euros

	Notes	2017	2016
Profit before tax		1,900	1,710
Adjustments for:		1,579	1,840
Depreciation and amortisation, and impairment losses	29	1,511	1,467
Other adjustments (net)		68	373
Changes in working capital		(370)	217
Trade and other receivables		(387)	(57)
Inventories		(241)	(162)
Current financial assets		(554)	336
Trade payables and other current liabilities		812	100
Other cash flows from/(used in) operating activities:		(671)	(772)
Interest received		44	27
Dividends received		27	22
Interest paid		(134)	(128)
Income tax paid		(350)	(346)
Other receipts from and payments for operating activities		(258)	(347)
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	2,438	2,995
Acquisitions of property, plant and equipment and intangible assets		(1,078)	(1,258)
Proceeds from sale of property, plant and equipment and intangible assets		15	14
Purchase of investments in Group companies	33.2	(2)	(1,196)
Proceeds from sale of investments in Group companies	33.2	16	135
Purchase of other investments		(187)	(173)
Proceeds from sale of other investments		29	61
Cash flows from changes in the consolidation scope		-	-
Grants and other deferred income		92	100
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	33	(1,115)	(2,317)
Cash flows from equity instruments	15.2	(3)	-
Proceeds from non-current borrowings	18.1 and 33.3	315	109
Repayment of non-current borrowings	18.1 and 33.3	(74)	(118)
Net cash flows used in current borrowings		(165)	492
Dividends of the Parent paid	15.1.9 and 33.3	(1,411)	(1,086)
Payments to non-controlling interests	33.3	(4)	(3)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	33	(1,342)	(606)
TOTAL NET CASH FLOWS		(19)	72
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(19)	72
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14	418	346
Cash in hand and at banks		418	344
Cash equivalents		-	2
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	399	418
Cash in hand and at banks		399	418
Cash equivalents		-	-

The accompanying notes 1 to 40 to the Consolidated Financial Statements are an integral part of the consolidated statements of cash flow for the years ended 31 December 2017 and 2016.

ENDESA, S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

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ENDESA, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2017

1. Group activity and financial statements

ENDESA, S.A. (hereinafter, “the Parent Company” or the “Company”) and its subsidiaries make up the ENDESA Group (hereinafter, “ENDESA”). The Company’s registered and head offices are at calle Ribera del Loira, 60, Madrid.

The Company was incorporated with limited liability under Spanish law in 1944 under the name Empresa Nacional de Electricidad, S.A. and changed its name to ENDESA, S.A. pursuant to a resolution adopted by the shareholders at the General Meeting of Shareholders on 25 June 1997.

Its corporate purpose is the electricity business in all its various industrial and commercial areas; the exploitation of primary energy resources of all types; the provision of industrial services, particularly in the areas of telecommunications, water and gas and those preliminary or supplementary to the Group’s corporate purpose, and the management of the corporate Group, comprising investments in other companies. ENDESA carries out its corporate purpose in Spain and abroad directly or through its investments in other companies.

ENDESA’s Consolidated Financial Statements for the year ended 31 December 2016 were approved by the shareholders at the General Meeting of Shareholders held on 26 April 2017, and filed with the Madrid companies register.

The ENDESA Consolidated Financial Statements for the year ended 31 December 2017, and those of all the companies comprising the Group for 2017, which were used in the preparation of these Consolidated Financial Statements, are pending approval by shareholders at their respective general meetings of shareholders. However, the directors of the Parent Company consider that these Consolidated Financial Statements will be approved as presented without modification.

The presentation currency of the Parent Company is the euro and the figures shown herein (unless stated otherwise) are in millions of Euros.

The Company forms part of the ENEL Group, whose parent is ENEL, S.p.A., which is governed by Italian legislation. Its registered office is at Viale Regina Margherita, 137, Rome, Italy. In Spain, the ENEL Group is headed by ENEL Iberia, S.L.U., with registered office at Calle Ribera del Loira, 60, Madrid. The ENEL Group, through ENEL Iberia, S.L.U., holds 70,101% of ENDESA, S.A.’s share capital (see Note 15.1.1). The ENEL Group’s Consolidated Financial Statements for the year ended 31 December 2016 were approved by the shareholders at the General Meeting of Shareholders held on 4 May 2017 and filed with the Rome and Madrid companies registers.

2. Basis of preparation of the Consolidated Financial Statements

2.1. Accounting principles

ENDESA’s Consolidated Financial Statements for the year ended 31 December 2017 were authorised for issue by the directors of the Parent Company at a board meeting held on 26 February 2018 and prepared in accordance with the International Financial Reporting Standards (“IFRSs”) and the interpretations of the IFRS Interpretations Committee (“IFRIC”) as adopted by the European Union at the reporting date pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council and other applicable regulations regarding financial reporting.

These Consolidated Financial Statements present fairly the equity and financial position of ENDESA at 31 December 2017, as well as the consolidated comprehensive income, consolidated operating performance, changes in consolidated equity and changes in consolidated cash flows for the year then ended.

The accounting principles and measurement are the same as those used to prepare the Consolidated Financial Statements for the year ended 31 December 2016, except for change in the accounting estimate of the useful lives of certain hydroelectric, wind and photovoltaic plants (see Notes 2.2, 3a.2 and 3d). They have been prepared on a going concern basis using the cost method, with the exception of items measured at fair value in accordance with IFRSs, as explained in the measurement bases applied to each. Items on the consolidated income statement are classified by types of costs.

ENDESA's Consolidated Financial Statements for the years ended 31 December 2017 and 2016 have been prepared from the accounting records of the Company and those of the rest of the companies comprising ENDESA.

Each subsidiary prepares its financial statements in accordance with the accounting principles and standards prevailing in the country in which it operates. When necessary, in the consolidation process adjustments and reclassifications have been made to the financial statements of subsidiaries to bring their accounting principles and standards into line with IFRSs and IFRIC criteria.

The accounting policies used to prepare the Consolidated Financial Statements are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2016, apart from the new standards adopted by the following European Union standards applicable commencing 1 January 2017, including the new IFRSs and IFRIC interpretations published in the Official Journal of the European Union and applied by ENDESA for the first time in the 2017 Consolidated Financial Statements.

a) Standards and interpretations endorsed by the European Union applied for the first time in the Consolidated Financial Statements for the year ended 31 December 2017.

Standards, amendments and interpretations	Mandatory application: Annual periods beginning on or after
Amendments to IAS 7 <i>Statement of Cash Flows</i> : - <i>Disclosure Initiative</i> .	1 January 2017
Modifications to IAS 12 <i>Income Taxes</i> : <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> .	1 January 2017

The application of the aforementioned standards do not have a significant impact on the Consolidated Financial Statements for the year ended 31 December 2017.

b) Standards and interpretations endorsed by the European Union to be applied for the first time in annual periods beginning in 2018.

Standards, amendments and interpretations	Mandatory application: Annual periods beginning on or after
IFRS 15 <i>Revenue from Contracts with Customers</i> .	1 January 2018
Clarifications to the IFRS 15 <i>Revenue from Contracts with Customers</i> .	1 January 2018
IFRS 9 <i>Financial Instruments</i> .	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i> .	1 January 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a new measurement model for revenue from contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

According to the analysis made at the date of preparation of these Consolidated Financial Statements, ENDESA has concluded that adoption of IFRS 15 *Revenue from Contracts with Customers* will not result in significant changes to revenue recognition, except for the impact arising from the capitalisation of the incremental costs of obtaining contracts with customers.

ENDESA will capitalise the incremental costs of obtaining these contracts with customers under "Non-current assets" in the consolidated statement of financial position, depreciating the asset on a systematic basis in accordance with the average expected life of the customer contracts related to these costs, which ranges from between 1.4 years to 9 years.

With regard to the transition alternative to adopt in the first-time application of this standard, ENDESA has opted for retroactive application with the accumulated impact of the initial application at 1 January 2018.

Therefore, and bearing in mind the type of customers and products and services contracted, and the transition method adopted for the first-time application of this standard, the impact on ENDESA's Consolidated Financial Statements at the date of first application of IFRS 15 *Revenue from Contracts with Customers* would be as follows:

Millions of Euros	
Consolidated statement of financial position	1 January 2018
Non-current assets	95
Cost of obtaining customers	95
TOTAL ASSETS	95
Equity	71
Of the Parent	71
Of non-controlling interests	-
Non-Current liabilities	24
Deferred tax liabilities	24
TOTAL EQUITY AND LIABILITIES	95

This amount corresponds to the capitalisation of the incremental costs of obtaining contracts with customers incurred in previous years that are still effective on the transition date.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* establishes the criteria for recognition, classification and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of a non-financial items.

According to the analysis made at the date of authorisation of these Consolidated Financial Statements, the impact of adopting IFRS 9 *Financial Instruments*, bearing in mind that ENDESA has opted to not to restate figures for comparative periods, is summarised below:

- Classification and measurement of financial assets and liabilities: Generally, from the analysis of the new classification according to the business model and the characteristics of the contractual cash flows, no relevant impacts are estimated and most of the financial assets are expected to continue being measured at amortised cost, with the exception, primarily, of equity instruments, which will be measured at fair value with changes to the consolidated income statement, and derivative financial instruments, which will be measured at fair value with changes to the income statement.
- Impairment of financial assets: ENDESA will apply the simplified approach for trade receivables, estimating lifetime expected losses for the assets and, the general approach for calculated expected loss for the remaining financial assets. The impact of the application of the new expected loss model to calculate the impairment of financial assets in ENDESA's Consolidated Financial Statements on the date of first application, would be as follows:

Millions of Euros	
consolidated statement of financial position	1 January 2018
Non-current assets	2
Non-current financial assets	(11)
Deferred tax assets	13
Current assets	(42)
Trade and other receivables	(23)
Current financial assets	(19)
TOTAL ASSETS	(40)
Equity	(40)
Of the Parent	(40)
Of non-controlling interests	-
TOTAL EQUITY AND LIABILITIES	(40)

- Hedge accounting: ENDESA has opted for the prospective application of hedge accounting and therefore its adoption will have no impact on the Consolidated Financial Statements on the date of first application.
- Refinancing of Interest-bearing loans and borrowings: ENDESA has assessed the impact of the accounting treatment of refinancing transactions that do not involve derecognition of the financial liability, in accordance with the amendments to IFRS 9 *Prepayment Features with Negative Compensation* published by the International Accounting Standards Board (IASB), and pending validation by the European Union, without assuming one significant impact.

c) Standards and interpretations endorsed by the European Union to be applied for the first time in annual periods beginning in 2019.

Standards, amendments and interpretations	Mandatory application: Annual periods beginning on or after
IFRS 16 <i>Leases</i> .	1 January 2019

ENDESA's management is assessing the impact that the application of this standard would have, and had not concluded its analysis at the date of authorisation of these Consolidated Financial Statements.

IFRS 16 *Leases*

IFRS 16 *Leases* establishes that a lessee must recognise an asset according to right-of-use, the right to use an underlying asset and a lease liability, which reflects the obligation to make lease payments during its term, with the exception of short-term lease contracts and those where the underlying asset is of lower value. This standard introduces no significant changes in regard to the lessor, who shall continue to classify leases as finance or operating.

The standard permits three transition alternatives in the first year of application:

- Full retrospective effect, applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and restating the period of comparison as if the standard had been applied for contract from the start (*Alternative 1*);
- Retrospective effect with amendments, which means not re-expressing the comparative period and presenting the cumulative effect of the initial application of the Standard on the date of the first application, registering the asset for the same value as the liability (*Alternative 2*).
- Retrospective effect with amendments, which means not re-expressing the comparative period and presenting the cumulative effect of the initial application of the Standard on the date of the first application, recognising the asset as if the Standard had been applied for contracts from the start (*Alternative 3*).

To assess the potential impact of the adoption of IFRS 16 *Leases* on the Consolidated Financial Statements, the work carried out by ENDESA includes, among others, the following tasks:

- Analysis of the lease arrangements made by the Company to determine whether they are subject to IFRS 16 *Leases*. This analysis includes not only the arrangements in which ENDESA acts as lessee, but also those in which it acts as lessor (see Notes 9.1 and 9.2).
- Analysis of the lease contracts where the standard may not be applied as they are contracts with an expiry date of less than 12 months or that have as their object assets of low individual value (less than 5,000 US dollars (USD)).
- Compilation of an inventory of lease contracts signed by the Entity in force at 31 December 2017 with an expiry date later than 1 January 2019 (see Notes 9.1 and 9.2).
- Estimate of lease terms, according to the non-cancellable period and the periods covered by renewal options exercisable by ENDESA and considered to be reasonably certain.

- Analysis of the standard's impact on the financial ratios and covenants in order, where appropriate, to renegotiate them.
- Review of the processes and systems, also including that of internal control, in order to determine the most suitable tools for managing all the necessary information for the application of the new standard, together with the breakdowns required in the Consolidated Financial Statements.

At the date of preparation of these Consolidated Financial Statements, ENDESA, having opted not to apply IFRS 16 *Leases* early, is assessing transition Alternatives 2 and 3 to be used on the date of first application and the practical solutions permitted by the Standard.

Therefore, as ENDESA has not yet completed its analysis of the potential impact of IFRS 16 *Leases*, and the definitive quantification of the impact of the initial application of this standard will be made in 2018. However, according to the preliminary analysis, for contracts in force at 31 December 2017, at the date of preparation of these Consolidated Financial Statements, the expected impact of the adoption of IFRS 16 *Leases* will be as follows:

- As a result of the recognition of the rights of use originated by the lease contracts listed as operational and predictably effective as of 1 January 2019, an increase is expected in Non-current assets in the consolidated statement of financial position, at 31 December 2017, for an approximate amount of between 0.46% and 0.56% of the Total assets in the consolidated statement of financial position at 31 December 2017.
- As a result of the recognition of the future payment obligations relating to these lease contracts an increase is also expected in Non-current and current liabilities in the consolidated statement of financial position for an approximate amount of 0.56% of the Total Equity and Liabilities in the consolidated statement of financial position at 31 December 2017.
- If transition Alternative 3 is adopted, in addition to the aforementioned impacts, a decrease in Reserves would also be expected, which would have an impact of approximately, 0.32% of the Equity in the consolidated statement of financial position at 31 December 2017.
- Operating lease costs of Euros 35 million in 2017, currently recognised under "Other fixed operating expenses" in the consolidated income statement (see Note 28) will be recognised under "Depreciation and amortisation and impairment losses" in the consolidated income statement for amortisation of rights of use, and under "Financial expense" in the consolidated income statement for accrual of the financial liability.

d) Standards and interpretations issued by the International Accounting Standards Board (IASB) not endorsed by the European Union

The International Accounting Standards Board (IASB) has approved the following IFRSs, which could affect ENDESA and at the date of preparation of these Consolidated Financial Statements had yet to be endorsed by the European Union:

Standards, amendments and interpretations	Mandatory application: ⁽¹⁾ Annual periods beginning on or after
IFRS 14 <i>Deferral of Regulated Activities</i> .	1 January 2016 ⁽²⁾
Amendments to IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i> .	1 January 2018
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> .	Indefinitely postponed
IFRS 17 <i>Insurance Contracts</i> .	1 January 2021
Annual Improvements to IFRSs 2014-2016 Cycle. The improvements are designed to address areas of inconsistency in IFRSs or where clarification in wording is required, with amendments to the following standards: - IFRS 1 <i>First-Time Adoption of International Financial Reporting Standards</i> . - IFRS 12 <i>Disclosure of Interests in Other Entities</i> . - IAS 28 <i>Investments in Associates and Joint Ventures</i> .	1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)
IFRIC 22 <i>Transactions in Foreign Currency and Advance Consideration</i> .	1 January 2018
Amendments to IAS 40 <i>Transfers of Investment Property</i> .	1 January 2018
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> .	1 January 2019
Amendments to IFRS 9 <i>Financial Instruments: Prepayment Features with Negative Compensation</i> .	1 January 2019
Amendments to IAS 28 <i>Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures</i> .	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle. The improvements are designed to address areas of inconsistency in IFRSs or where clarification in wording is required, with amendments to the following standards: - IFRS 3 <i>Business Combinations</i> and IFRS 11 <i>Joint Arrangements: Previously Held Interest in a Joint Operation</i> . - IAS 12 <i>Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity</i> . - IAS 23 <i>Borrowing Costs</i> .	1 January 2019

(1) If adopted without changes by the European Union.

(2) Adoption process halted by the European Union.

At the date of authorisation for issue of the Consolidated Financial Statements, ENDESA's management is assessing the impact of these standards, if endorsed by the European Union, on the Consolidated Financial Statements.

Based on the analyses carried out to date, ENDESA estimates that their initial application will not have a significant impact on its Consolidated Financial Statements.

2.2. Responsibility for information and estimates

The Parent Company's management is responsible for the contents of the Consolidated Financial Statements and expressly states that all IFRS principles and criteria have been applied.

In preparing these Consolidated Financial Statements, ENDESA's directors made estimates to measure certain assets, liabilities, income, expenses and commitments included therein. These estimates were essentially as follows:

- Measurement of assets to determine any impairment losses (see Note 3e).
- Assumptions used in the actuarial calculation of liabilities and obligations to employees and the leaving dates and conditions for employees involved in personnel restructuring plans (see Notes 3k.1, 3k.2, 17.1 and 17.2).
- Useful lives of property, plant and equipment and intangible assets (see Notes 3a and 3d).
- Assumptions used to calculate the fair value of financial instruments (see Notes 3g and 19.6).
- Unmetered power supplied to customers (see Notes 3o and 13).
- Certain figures for the electricity system, including those relating to other companies, such as output, billing to customers, power consumed, distribution activity incentives, etc., which can be used to estimate the overall settlements in the electricity system to be made in the corresponding final statements. These settlements, which are pending at the date of authorisation for issue of the Consolidated Financial

Statements, could affect the assets, liabilities, income and expenses related with electricity system activities (see Note 4).

- Interpretation of existing or new electricity system regulations, the final economic effects of which will ultimately depend on rulings by the authorities responsible for settlements. Certain rulings are pending at the date of authorisation of these Consolidated Financial Statements (see Note 4).
- The likelihood and amount of undetermined or contingent liabilities (see Notes 3k and 17.3).
- Future costs for decommissioning and restoration of land (see Notes 3a, 3b, 3d, 3k.4 and 17.3).
- The hypotheses used to measure deferred tax assets and tax credits (see Note 3n and 22.1).
- Taxable income of the ENDESA companies to be declared to the taxation authorities in the future and used as the basis of income tax balances recognised in the accompanying Consolidated Financial Statements (see Notes 3n, 22 and 32).

Although these estimates have been based on the best information available at the date of preparation of the Consolidated Financial Statements, future events could require the estimates to be increased or decreased in subsequent years. Changes in estimates are made prospectively and the effects recognised in the corresponding Consolidated Financial Statements for future years.

2.3. Subsidiaries

Subsidiaries are the investees, which the Parent Company controls, directly or indirectly, through power over the investee, exposure, or rights, to variable returns from involvement with the investee and the ability to use power over the investee to affect those returns. In this respect, a company is exposed to variable returns from its involvement with the investee when the returns from its involvement have the potential to vary as a result of the investee's performance, and the company has the ability to use its power to affect the variable returns.

Control arises from substantive rights over the investee, whereby ENDESA applies its own judgement to assess whether these substantive rights give it the power to govern the investee's main activities in order to affect its returns. To this end, consideration is taken of all the facts and circumstances involved to assess whether or not it controls an investee, analysing factors such as contracts with third parties, rights arising from other contractual agreements, and real and potential voting rights, considered as potential voting rights held by ENDESA or third parties that are exercisable or convertible at the accounting close.

When events occur that affect control of the investee, exposure to variable returns due to continued involvement, or the ability to use control of the investee to influence its returns, the existence of control of the investee is reassessed.

Subsidiaries are fully consolidated as described in Note 2.7.

At 31 December 2017 and 2016, ENDESA had no Structured Entities as defined in IFRS 12 *Disclosure of Interests in Other Entities*, designed in such a way that voting rights and similar rights do not constitute the main factor for the purposes of defining control.

Appendix I to these Consolidated Financial Statements lists ENDESA's subsidiaries at 31 December 2017 and 2016.

2.3.1. Changes in consolidation scope

Appendix III to the Consolidated Financial Statements details inclusions, exclusions and changes in investments in subsidiaries during 2017.

This section addresses changes in the consolidated group during 2017 and 2016.

2017

Companies added

On 31 May 2017, ENDESA Red, S.A.U. acquired 52.54% of the shares of Eléctrica de Jafre, S.A. for Euros 1 million. ENDESA previously held an indirect share of 47.46% of the share capital in this company through Hidroeléctrica de Cataluña, S.L.U. As a result of this transaction, the final stake held by ENDESA in Eléctrica de Jafre, S.A. is 100% (see Notes 2.4, 5.2 and 11.1):

	% Ownership at 31 December 2017		% Ownership at 31 December 2016	
	Control	Ownership	Control	Ownership
Eléctrica de Jafre, S.A.	100.00	100.00	47.46	47.46

The impacts of this operation are detailed in Note 5.2.

As a result of this award, in the renewables auctions held on 17 May 2017 and 26 July, for 540 MW of wind power and 339 MW of photovoltaic power, respectively (see Note 4), the following companies were acquired/formed:

	Date	Transaction	Technology	Percentage stake at 31 December 2017	
				Control	Ownership
Explotaciones Eólicas Santo Domingo de Luna, S.A.	2 November 2017	Formed	Wind	51.00	51.00
Seguidores Solares Planta 2, S.L.U.	23 November 2017	Acquisition	Photovoltaic	100.00	100.00
Baylio Solar, S.L.U.	15 December 2017	Acquisition	Photovoltaic	100.00	100.00
Dehesa de los Guadalupe Solar, S.L.U.	15 December 2017	Acquisition	Photovoltaic	100.00	100.00
Furatena Solar 1, S.L.U.	15 December 2017	Acquisition	Photovoltaic	100.00	100.00

The impacts of these operations are detailed in Note 5.3.

Companies excluded

On 4 August 2017 the dissolution of subsidiary Minas de Estercuel, S.A. (in liquidation) and Minas Gargallo, S.L. (in liquidation) in which ENDESA held a controlling stake of 99.65% and 99.91%, respectively, was filed with the Companies Register. The financial indicators for these companies were not material.

The following mergers between subsidiaries took place in 2017:

(Acquirer)	Effective merger date	Acquirees	Percentage stake at 31 December 2016 (Acquiree)	
			Control	Ownership
ENEL Green Power España, S.L.U. (EGPE)	6 November 2017	Serra do Moncoso-Cambás, S.L.U. Parque Eólico Aragón, S.L.U.	100.00 100.00	100.00 100.00

On 28 December 2017, the sale of the 60% holding in the share capital of Nueva Marina Real Estate, S.L. was completed. The exclusion from the consolidation scope led to a decrease of Euros 19 million in Non-current assets, Euros 1 million in Current assets, Euros 2 million in Non-controlling interests (see Note 15.2), Euros 6 million in Non-current liabilities and Euros 19 million in Current liabilities. The gross gain on the sale of this stake was Euros 9 million (see Note 31).

Changes

During the year ended 31 December 2017, the following changes took place in the percentage of control and economic ownership in the companies included in the consolidation scope:

Changes in consolidation scope	% Ownership at 31 December 2017		% Ownership at 31 December 2016	
	Control	Ownership	Control	Ownership
Productor Regional de Energía Renovable, S.A.U.	100.00	100.00	85.00	85.00
Productor Regional de Energías Renovables III, S.A.U.	100.00	100.00	82.89	82.89

The transactions had no impact on the consolidated income statement, but had an impact of Euros 3 million on equity.

2016

Companies added

As a result of the purchase of 60% of the holding in the share capital of ENEL Green Power España, S.L.U. (EGPE) on 27 July 2016, which gave it control of that company rather than the significant influence it had exercised until that date (see Notes 2.4, 5.4 and 11.1), all of ENEL Green Power España, S.L.U. (EGPE)'s share capital was included in the scope of consolidation, in addition to the holdings controlled by it.

Appendix IV to these Consolidated Financial Statements lists the holdings of ENEL Green Power España, S.L.U. (EGPE) at the acquisition date.

Further, on 28 July 2016, ENDESA acquired all the share capital of Eléctrica del Ebro, S.A.U., which resulted in the inclusion in the scope of consolidation of this company and of its subsidiary Energía Eléctrica del Ebro, S.A.U. (in liquidation) (see Note 5.5).

The impact of these transactions is detailed in Notes 5.4 and 5.5.

Companies excluded

On 29 December 2016, the 64.07% holding in Energía de La Loma, S.A. and the 68.42% holding in Energías de la Mancha Eneman, S.A., previously acquired on 27 July 2016 as part of the agreement take control of ENEL Green Power España, S.L.U. (EGPE) were sold (see Note 5.4). The amount generated from this sale was not significant.

The financial indicators for these companies were not material.

Changes

During the year ended 31 December 2016, the following changes took place in the percentage of control and economic ownership of the companies included in the consolidation scope:

Changes in consolidation scope ⁽¹⁾	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
ENDESA Generación Portugal, S.A.	100.00	100.00	99.40	99.40
Hidromondego – Hidroeléctrica do Mondego, Lda.	100.00	100.00	100.00	99.94

(1) As a result of the purchase of 60% of the holding in ENEL Green Power España, S.L.U. (EGPE) (see Note 5.4).

2.3.2. Non-consolidated companies in which the Group holds an interest of more than 50%

Although ENDESA owns more than 50% of Asociación Nuclear Ascó-Vandellós II, A.I.E., it is considered to be a joint operation entity (see Note 2.5) because, through shareholder pacts or agreements, ENDESA exercises joint control with the other party and has rights to its assets and has obligations in respect of its liabilities.

2.4. Associates

Associates are entities in which the Parent Company has significant influence, directly or indirectly. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by ENDESA or other entities, are taken into account when assessing whether it has significant influence.

In general, where ENDESA holds a stake above 20%, it is presumed that it has significant influence.

Associates are accounted for in these Consolidated Financial Statements using the equity method, as described in Note 3h.

Appendix II to these Consolidated Financial Statements lists ENDESA's associates at 31 December 2017 and 2016.

Appendix III to the Consolidated Financial Statements details inclusions, exclusions and changes in the investments in associates in 2017.

2017.

Companies added

In the year ended 31 December 2017, no associates were included in the consolidation scope.

Companies excluded

After control was obtained over Eléctrica de Jafre, S.A. this investment was recognised as a subsidiary (see Notes 2.3, 5.2 and 11.1).

Changes

In the year ended 31 December 2017, there were no other changes in the percentage of control and economic ownership of associates included in the consolidation scope.

2016.

Companies added

Following the takeover of ENEL Green Power España, S.L.U. (EGPE) described in Note 5.4 its associates were also included. Appendix IV to these Consolidated Financial Statements lists ENDESA's associates that formed part of ENEL Green Power España, S.L.U. (EGPE) at the acquisition date.

Companies excluded

Following the obtainment of control of ENEL Green Power España, S.L.U. (EGPE) this investment was recognised as a subsidiary (see Notes 2.3, 5.4 and 11.1).

On 30 December 2016, the dissolution of Enerlasa, S.A. (in liquidation) was registered. The financial indicators for this company were not material.

Changes

In the year ended 31 December 2016, there were no other changes in the percentage of control and economic ownership of associates included in the consolidation scope.

2.5. Joint Arrangements

A joint arrangement is an agreement that gives two or more parties joint control, whereby the unanimous consent of all parties sharing control is required for decisions to be taken with respect to major activities.

Joint arrangements may be joint operations or joint ventures, depending on the rights and obligations of the parties to the agreement.

In order to determine the type of joint arrangement from a contractual arrangement at the accounting close, Management assesses the legal contents and structure of the arrangement, the terms agreed by the parties and other relevant factors and issues. If any changes are made to the contractual features of a joint arrangement, these factors and issues are reassessed.

2.5.1. Joint operations

Joint operations are entities governed by a joint arrangement whereby ENDESA and the other parties have rights to their assets and obligations with respect to the liabilities.

The assets and liabilities concerned by joint operations are consolidated proportionately, as described in Note 2.7.

Appendices I and III to the Consolidated Financial Statements list the joint operations of ENDESA at 31 December 2017 and 2016, and the changes occurring during the year, respectively.

2017.

Companies added

In the year ended 31 December 2017, no joint operations were included in the consolidation scope.

Companies excluded

On 30 June 2017, ENDESA sold the shares it held in the following companies:

Exclusions from the scope of consolidation	% Ownership at 31 December 2017		% Ownership at 31 December 2016	
	Control	Ownership	Control	Ownership
Aquila Solar, S.L.	-	-	50.00	50.00
Cefeidas Desarrollo Solar, S.L.	-	-	50.00	50.00
Cephei Desarrollo Solar, S.L.	-	-	50.00	50.00
Desarrollo Photosolar, S.L.	-	-	50.00	50.00
Fotovoltaica Insular, S.L.	-	-	50.00	50.00
Sol de Media Noche Fotovoltaica, S.L.	-	-	50.00	50.00

As a result of the sale of these companies, items of property, plant and equipment for the amount of Euros 7 million (see Note 6) and intangible assets of Euros 1 million (see Note 8) were derecognised. The remaining financial indicators for these companies were immaterial. The gross gain on the sale of these stakes was Euros 4 million (see Note 31).

Changes

In the year ended 31 December 2017 there were no other changes in the percentage of control and economic ownership.

2016

In the year ended 31 December 2016, no joint operations were included in the scope of consolidation, and there were no exclusions or changes in the control and ownership percentage stakes.

2.5.2. Joint ventures

Joint ventures are companies governed by a joint arrangement whereby ENDESA and the other parties have rights to the net assets.

Joint ventures are accounted for in these Consolidated Financial Statements using the equity method, as described in Note 3h.

Appendices II and III of the Consolidated Financial Statements list the joint ventures of ENDESA at 31 December 2017 and 2016, and the changes occurring during the year, respectively.

2017

In the year ended 31 December 2017 there were no other changes in ENDESA's joint ventures.

2016

Companies added

Following the acquisition of ENEL Green Power España, S.L.U. (EGPE) described in la Note 5.4, the joint ventures indicated in Appendix IV to these Consolidated Financial Statements were registered.

Companies excluded

On 24 May 2016, the following stake was sold to ENEL Investment Holding B.V. (see Note 11.1):

Exclusions from the scope of consolidation	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
ENEL Insurance N.V.	-	-	50.00	50.00

Changes

In the year ended 31 December 2016, the following changes took place in the percentage of control and economic ownership of the companies included in the consolidation scope:

Changes in consolidation scope ⁽¹⁾	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
Carbopegó – Abastecimientos de Combustíveis, S.A.	50.00	50.00	50.00	49.99
Elecgas, S.A.	50.00	50.00	50.00	49.70
Pegop – Energía Eléctrica, S.A.	50.00	50.00	50.00	49.99

(1) As a result of the purchase of 60% of the holding in ENEL Green Power España, S.L.U. (EGPE) (see Note 5.4).

Also on 30 March 2016, ENDESA acquired shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A. (see Note 11.1):

Changes in consolidation scope	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
Tejo Energia – Produção e Distribuição de Energia Eléctrica, S.A.	43.75	43.75	38.89	38.89

2.6. Other investments

The impact of the financial indicators of ENDESA's investees that are not considered subsidiaries, joint operation entities, joint ventures or associates on the fair presentation required of the Consolidated Financial Statements is minimal.

2.7. Basis of consolidation and business combinations

Subsidiaries are fully consolidated from the date of acquisition, being the date on which ENDESA obtains control, and all their assets, liabilities, income, expenses and cash flows are included in the Consolidated Financial Statements after the adjustment and elimination of intragroup transactions.

Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Jointly-controlled entities are consolidated using proportionate consolidation. ENDESA combines the proportionate share of each of the assets, liabilities, income, expenses and cash flows in its Consolidated Financial Statements, after the adjustment and elimination of intragroup transactions.

The operations of the Parent Company and its subsidiaries are consolidated in accordance with the following basic principles:

- At the acquisition date, the assets, liabilities and contingent liabilities of the subsidiary are measured at fair value, except certain assets and liabilities which are measured according to the principles set out in IFRS. If fair value is determined on a provisional basis, the value of the business combination is measured using provisional values. Any adjustments arising from completion of the valuation process are carried out within 12 months of the business combination, and consequently the comparative figures are restated. Where the acquisition cost of the subsidiary exceeds the fair value of the Parent Company's share of its assets and liabilities, including contingent liabilities, the difference is recognised as goodwill. Where the acquisition cost is lower, the difference is recognised in the consolidated income statement. Costs attributable to the acquisition are recognised as an expense as incurred.
- Any contingent consideration arising from a business combination is recognised at fair value at the acquisition date. Payment obligations arising from a contingent consideration are recognised as liabilities or equity in the consolidated statement of financial position, as per the definition of these items in IAS 32 *Financial Instruments: Presentation*. Collection rights in connection with a contingent consideration arising from the return of considerations previously transferred are recognised as assets in the consolidated statement of financial position.

- Non-controlling interests in the fair value of the net assets acquired and the profit or loss of fully consolidated subsidiaries are recognised in equity: non-controlling interests in the consolidated statement of financial position and non-controlling interests in the consolidated statement of other comprehensive income, respectively.
- The financial statements of foreign companies with a functional currency other than the euro are translated to Euros as follows:
 - Assets and liabilities at the rate of exchange prevailing at the reporting date.
 - Income and expenses at the average exchange rate for the year.
 - Equity at the historical rate at the acquisition date and retained earnings and contributions at the average exchange rate for the year, as appropriate.

Exchange differences arising on the retranslation of financial statements are shown net of the related tax effect under “Translation differences” in the consolidated statement of other comprehensive income: Other comprehensive income.

Translation differences arising prior to 1 January 2004 were reclassified to reserves as, on first-time adoption of IFRSs, the Company applied the exemption provided for the conversion of financial statements prepared under Spanish GAAP to IFRS.

- All balances and transactions between fully consolidated companies, or the related portion in the case of proportionately consolidated companies, were eliminated on consolidation.
- When a transaction results in the loss of control of a subsidiary, any investment retained in the company is measured at its fair value at the date when control is lost. The difference between the fair value of the consideration received plus the fair value of the investment retained and the carrying amounts of the non-controlling interests in the former subsidiary, and the assets and liabilities derecognised from the consolidated statement of financial position following the loss of control of the previously controlled subsidiary is recognised under “Gains/(losses) on disposal of assets” in the consolidated income statement. Amounts recognised in the Statement of Other Comprehensive Income are booked as if the assets and liabilities concerned had been disposed of.
- When a transaction results in control being acquired over a company in which a stake was previously held, the previous investment is registered at its fair value at the date when control is gained. The difference between the fair value and the carrying amount of the previously-held investment is recognised in the consolidated income statement. Amounts recognised in the statement of other comprehensive income are accounted for if the assets and liabilities concerned had been disposed of.
- If the transaction is between entities or businesses under common control, the economic substance of the business combination is determined in order to assign a fair value to the net assets acquired.
- Changes in investments in subsidiaries that do not result in the Parent gaining or losing control of the subsidiary are accounted for as equity transactions, with the carrying amounts of the controlling and non-controlling interests adjusted to reflect changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity of the parent.

3. Measurement criteria

The main measurement criteria used in preparing the accompanying Consolidated Financial Statements were as follows:

a) Property, plant and equipment

a.1. Acquisition costs

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. In addition to the price paid for the acquisition of each item, cost also includes, where appropriate, the following items:

- Borrowing costs accrued during the construction period that are directly attributable to the acquisition, construction or production of qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use; e.g. electricity generating and distribution facilities. The interest rate used is that applicable to the specific purpose financing or, in the absence of such a rate, the average financing rate of the company making the investment. The average lending rate in 2017 was 2.1% (2.5% in 2016). Euros 5 million were capitalised in this respect in 2017 (Euros 6 million in 2016) (see Note 30).
- Personnel expenses relating directly to work in progress. The amounts capitalised are recognised under “Personnel expenses” in the consolidated income statement and Work carried out by the Group for its assets in the consolidated statement of financial position. In 2017, the amount capitalised in this respect amounted to Euros 98 million (Euros 98 million in 2016).
- ENDESA recognises the costs it will incur in the future to decommission its facilities in the cost of the asset, at present value, and recognises the related provision. ENDESA reviews its estimate of these future costs annually, increasing or decreasing the value of the related asset based on the outcome of the review. For nuclear power plants, this provision includes the amount that ENDESA estimates it will have to pay until the government-owned company Empresa Nacional de Residuos Radioactivos, S.A. undertakes responsibility for decommissioning these plants pursuant to Royal Decree 1349/2003 of 31 October, Law 24/2005 of 18 November and Law 15/2012 of 27 December (see Note 17.3).

The acquisition cost of assets acquired before 31 December 2003 includes any asset revaluations permitted in the various countries to adjust the value of the property, plant and equipment for the effect of inflation until that date.

Assets under construction are transferred to property, plant and equipment in use once the trial period has ended and they are available for use, at which time depreciation begins.

Costs of expansion, modernisation or improvements which increase the productivity, capacity or efficiency or lengthen the useful lives of assets are capitalised as an increase in the cost of the related assets.

Replacements or renewals of complete items that extend the useful life or increase the economic benefits of the assets are recognised as increases in the value of property, plant and equipment and the items replaced or renewed are derecognised.

Regular maintenance, upkeep and repair expenses are recognised in the income statement are expensed as incurred.

Indivisible assets shared by ENDESA with other owners are recognised in proportion to ENDESA’s ownership of those assets (see Note 6).

Based on the results of the impairment test described in Note 3e, the Parent Company’s directors consider that the carrying amount of the assets does not exceed their recoverable amount.

a.2. Depreciation

Property, plant and equipment, less their residual value where appropriate, are depreciated when they are available for use on a straight-line basis over their estimated useful lives, which are the periods of expected

use. Useful lives are reviewed regularly when there are indications of possible variations, and adjusted prospectively, as appropriate.

The useful life of assets for the purposes of calculating depreciation are as follows:

	Years of estimated useful life	
	2017	2016
Generating facilities:		
Hydroelectric power plants		
Civil engineering works	100	65
Electromechanical equipment	50	35
Coal-fired power plants	25-59	25-59
Nuclear power plants	50	50
Combined cycle plants	40	40
Renewable energy plants		
Photovoltaic	30	20
Wind	30	25
Transmission and distribution facilities		
Low and medium-voltage network	40	40
Measuring and remote control equipment	6-15	6-15
Other facilities	25	25

Land has an indefinite useful life and is therefore not depreciated.

During the year ended 31 December 2017, new technical studies were conducted on the useful lives of wind and photovoltaic facilities based on internal and external information sources. These studies are based on extended experience existing to date for plants with similar characteristics and technology developments made since commissioning, and demonstrate that in appropriate operating conditions, by applying specific predictive maintenance plans to anticipate faults in main non-structural components and making appropriate investments, these wind turbines and photovoltaic plants could achieve at least 30 years of operation in secure conditions.

Accordingly, ENDESA has modified the useful lives of wind and photovoltaic generation facilities as of 1 January 2017, extending them from 25 and 20 years respectively to 30 years.

The effect of this change on the consolidated income statement for the year ended 31 December 2017 was a year-on-year decrease in the depreciation expense of Euros 21 million.

Further, regarding hydroelectric power plants, ENDESA has conducted new internal and external technical studies on the useful lives of these plants based on extended experience existing to date for hydroelectric power plants of technically similar characteristics. The studies demonstrate that these facilities could surpass the initially established useful lives when the appropriate operating conditions, operation and maintenance programmes and investments are maintained, guaranteeing safety in functioning in accordance with the legally established requirements.

According to these studies, from a technical point of view, the configuration of these plants together with the recurrent investments made by ENDESA since their commissioning and the maintenance plans executed over time allow ENDESA's hydroelectric power plants to continue generating power efficiently beyond the useful life estimated until now, which could be extended significantly.

On this basis, ENDESA has modified the useful life of its hydroelectric power plants from the 65 years estimated until now for civil engineering and 35 years for electrical-mechanical equipment, to 100 years and 50 years, respectively, up the limit of the term of the concession. This change was made from 1 January 2017, with prospective application.

The effect of this change on the consolidated income statement for the year ended 31 December 2017 was a Euros 42 million year-on-year reduction in the depreciation charge.

a.3 Other aspects

Pursuant to Law 29/1985 of 2 August 1985, partially amended by Law 46/1999 of 13 December 1999, all Spanish hydroelectric power plants are operated under temporary service concession arrangements. The terms and conditions of these arrangements require that the plants revert to state ownership in good working

order when the concessions expire, and at 31 December 2017, their reversion period was established as between 2018 and 2067 (see Note 17.3). The plants are depreciated over the shorter of the concession term and their useful economic life.

ENDESA assessed the specific situations of these concessions, concluding that, in none of these cases, the determining factors are given to apply IFRIC 12 *Service Concession Arrangements* (see Note 3d.1).

Items under property, plant and equipment are derecognised when they are sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when they are used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of property, plant and equipment are recognised in profit or loss and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

b) Investment property

Investment property comprises the land and buildings not expected to be recovered in the ordinary course of ENDESA's statutory activity.

Investment properties are measured at acquisition cost less any accumulated depreciation and any accumulated impairment losses.

The market values of investment property were calculated based on external appraisals carried out during the last quarter of 2017 (see Notes 7.1 and 19.6.2).

To determine the fair market value of real estate investments, appraisals from officially renowned independent experts were requested, to include their best estimate of value based on a greater/lesser use of the property in question with regard to its urban location and current state, in the case of construction.

Investment property (excluding land) is depreciated on a straight-line basis over the useful lives of the assets, which are estimated using the same criteria as for property, plant and equipment

Investment property is derecognised when it is sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when it is used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of investment property are recognised in profit or loss and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

c) Goodwill

Goodwill on consolidation represents the excess of the acquisition cost over (under) the acquisition-date fair value of ENDESA's interest in the identifiable assets acquired and liabilities assumed, including contingent liabilities, of a subsidiary or jointly-controlled entity.

The assets and liabilities acquired are measured provisionally at the date on which control of the company is obtained, and reviewed within a maximum period of one year from the acquisition date. The difference between the acquisition cost and the carrying amount of the acquiree is recognised provisionally as goodwill, until the actual fair value of the assets and liabilities is determined.

When the actual amount of goodwill is determined in the Consolidated Financial Statements for the year following that of the acquisition of the interest, the previous year's financial statements presented for comparison purposes are adjusted to include the value of the assets and liabilities acquired and the definitive goodwill from the date of acquisition of that interest.

Goodwill arising on the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the acquiree and translated to Euros at the exchange rate prevailing at the reporting date.

Goodwill is not amortised, but allocated to each cash-generating unit ("CGUs" or "CGU") or groups of cash-generating units. At the end of each reporting period, CGUs are tested for impairment and written down if recoverable amount has been reduced below carrying amount (see Note 3e).

At 31 December 2017 the goodwill recognised in the consolidated statement of financial position was generated as a result of the acquisition of the systems and telecommunications activity (ICT), and the acquisition of control over ENEL Green Power España, S.L.U. (EGPE) and Eléctrica del Ebro, S.A.U. (see Notes 5.1, 5.4 and 5.5).

d) Intangible assets

Intangible assets are initially recognised at cost of acquisition or production and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful lives, except for those with indefinite useful lives, which are not amortised.

At 31 December 2017 and 2016, there were no intangible assets with indefinite useful lives.

The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years are described in section e) of this note.

Intangible assets are derecognised when they are sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when they are used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of intangible assets are recognised in profit or loss and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

As a result of the change in useful lives of the wind and photovoltaic generation facilities (see Note 3a.2) a lower cost in the provision for amortisation and depreciation of intangible assets has been recognised, corresponding to the authorisations of the operation of the aforementioned wind power facilities, for the amount of Euros 13 million in respect of the previous year.

d.1. Concessions

IFRIC 12 *Service Concession Arrangements* gives guidance on the accounting by operators for public-to-private service concession arrangements. This accounting interpretation applies to concessions in which:

- The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where both the above conditions are met simultaneously, the consideration received by ENDESA for the construction of infrastructure is recognised at fair value as an intangible asset, to the extent that the operator has received a right to charge users for the public service, contingent on the extent that the public uses the service, or as a financial asset, to the extent that it has an unconditional contractual right to receive cash or another financial asset from the grantor or a third party. ENDESA's contractual obligations for maintenance of the infrastructure while it is in operation or for its return to the grantor at the end of the concession arrangement in the conditions specified therein, provided that these activities do not generate revenue, are recognised applying the accounting policy for provisions (see Note 3k).

At 31 December 2017 and 2016, ENDESA had no intangible assets in relation to its concession arrangements as a result of applying IFRIC 12 *Service Concession Arrangements*.

Borrowing costs are capitalised using the criteria specified in letter a) of this note, provided that the concession operator has a contractual right to receive an intangible asset. No borrowing costs were capitalised in 2017 and 2016.

No personnel expenses were capitalised in 2017 and 2016.

Concessions are amortised over the term of the concession.

Concession contracts that are not subject to IFRIC 12 *Service Concession Arrangements* are recognised using general criteria. ENDESA depreciates any assets recognised as property, plant and equipment (see Note 3a) on a straight-line basis over the shorter of the asset's economic life or the concession term. When calculating asset impairment, ENDESA's contractual obligations to invest in, improve or replace assets are considered to produce the future cash outflows required to generate cash inflows. Assets whose right to use has been conveyed by ENDESA in exchange for consideration are accounted for using the criteria specified in Note 3f.

d.2. Research and development costs

Development expenditures on projects are recognised as an intangible asset when ENDESA is reasonably assured of the technical feasibility of completing the project and that the project will generate future economic benefits.

Development expenditures are amortised over their useful life in accordance with a systematic plan which, in most cases, has been estimated at five years.

Research costs are recognised as expenses in the consolidated income statement. Research costs in the consolidated income statement amounted to Euros 24 million in 2017 (2016: Euros 16 million).

d.3. Other intangible assets

These assets chiefly correspond to:

- Software, which is initially recognised at cost of acquisition or production and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised over its useful life which, in most cases, has been estimated at five years. During 2017 and 2016, respective personnel expenses amounting to Euros 37 and 19 million were capitalised.
- Customer portfolios acquired through business combinations are initially recognised at their fair value at the acquisition date. They are subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The depreciation of these portfolios takes place over their useful lives, and ranges from 15 to 25 years, based on their gradual decrease.

e) Impairment of non-financial assets

ENDESA assesses throughout the year and, in any case, at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount to determine the extent of any impairment loss. For assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the Group estimates the recoverable amount of the CGU to which the asset belongs; i.e. the smallest identifiable group of assets that generates independent cash inflows.

It estimates the recoverable amount of the CGUs to which goodwill or intangible assets with indefinite useful lives have been allocated systematically at each reporting date.

e.1. Cash-Generating Units (CGUs).

ENDESA considers that the assets of electricity generation business belonging to a single interconnected system and the assets of electricity distribution in each country that receive joint remuneration represent a CGU. The most significant CGUs at 31 December 2017 and 2016 were as follows:

- Generation: There is a CGU for generation on the Iberian Peninsula and another CGU for each of the Non-mainland Territories (TNP) systems (Balearic Islands, Canary Islands, Ceuta and Melilla). All assets at each of the CGUs are managed on a joint basis, irrespective of the type of technology used (hydro, coal, fuel-oil, nuclear, combined cycle and renewable energy), depending on the availability of the facilities, weather conditions and demand, and on the need to cover the system's technical restrictions, among other aspects. The joint management and diversification of the generation portfolio enables ENDESA to respond in a flexible way to the demand requirements through offers on different markets, coordinated by a single representative and liquidating party, thereby guaranteeing a secure supply. Likewise, decisions are taken on operations based on the installed capacity of the whole generation park. This means that the total generation in each of the geographic areas mentioned above constitutes a CGU.

- Distribution: The assets of the distribution network constitute a single CGU, as their individual assets do not generate independent cash inflows. The distribution network is composed of interrelated interdependent assets in respect of which activities, operation and maintenance are managed on a joint basis.

e.2 Calculation of the recoverable amount

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows.

In estimating value in use, ENDESA prepares pre-tax cash flow projections based on the latest budgets available. These budgets include ENDESA management's best estimates of the income and expenditure of the CGUs according to industry projections, past experience and future expectations.

These projections cover the next 5 years and the cash flows to the end of the useful lives of the assets or the end of the concession, as appropriate, factoring in any residual value and applying reasonable growth rates based on assumptions regarding average long-term growth rates and forecast inflation for the industry and country concerned.

The estimated future cash flows are discounted to present value using a pre-tax rate that reflects the cost of capital of the business and its geographical area. It considers the current time value of money and the risk premiums generally used by analysts for the business and the geographical area.

The discount rates applied in 2017 and 2016 fall within the following ranges:

	Currency	31 December 2017		31 December 2016	
		Minimum (%)	Maximum (%)	Minimum (%)	Maximum (%)
Generation	Euro	5.4	7.3	6.2	7.8
Distribution	Euro	5.5	7.2	5.9	8.1

An analysis of the parameters comprising the 2017 discount rates reveals that the risk-free rate decreased significantly from 2.20% in 2016 to 1.82% in 2017, and the business' risk premium, which constitutes the specific risk of the assets and is based on deleveraged betas considered for companies with similar activities, remained stable for both regulated and deregulated businesses.

The growth rates (g rates) used in the 2017 and 2016 financial years to extrapolate the cash flow projections were the following:

%		
Growth rates	2017	2016
	1.7	1.4

These growth rates, which do not surpass the average growth rate of the sector and markets in which ENDESA operates are in line with Spain's long-term inflation as well as market estimates.

The approach used to allocate values to the key assumptions considered:

- Trend of demand for electricity and gas: estimated growth was calculated on the basis of the growth forecast for Gross Domestic Product (GDP) and other assumptions used by ENDESA with respect to trends in consumption of electricity and gas in these markets.
- Regulatory measures: a substantial part of ENDESA's business is regulated and subject to wide-ranging complex regulations, which may be amended by the introduction of new laws, by amendments to existing laws in such a way that forecasts contemplate proper application of current regulations, and any other laws now in process that may come into force during the projected period.
- Average rainfall and wind potential levels: forecasts are drawn up on the basis of the average weather conditions in a year, taking account of historical conditions series. However, the actual rainfall and wind potential levels of the preceding year were used for the first year of the projection, adjusting the average year accordingly.

- Installed capacity: ENDESA's installed capacity estimate takes into account existing facilities and plans to increase and terminate capacity. The investment plan is updated continuously on the basis of the trajectory of the business and changes to the development strategy undertaken by Management. Generating activity takes account of the investment required to maintain installed capacity in proper operating conditions, distribution activity considers investment in maintenance, improvement and enhancement of the network, and investment required to implement the remote metering plan, and marketing activity takes account of the investment required to bring about added-value products and services (AVPSs).
- The production mix was determined using complex specifically-developed internal forecast models that consider factors such as prices and availability of commodities (e.g. Brent, gas, coal), forecast demand, planned construction or the commissioning of new capacity in the various technologies. These models are constantly changing, factoring in changes in variables such as availability of the production base, availability of fuels or start-up of operation of new plants. They provide signals on prices in the system and estimates of production costs, on which output forecasts for generation facilities are based.
- Assumptions for energy sale and purchase prices are made based on complex specifically-developed internal forecast models. The planned pool price is estimated on the basis of a number of decisive factors such as the costs and outputs of technologies and demand for electricity, among others.
- The prices at which electricity and gas are sold are determined on the basis of the prices established in sales contracts and future energy prices.
- Fuel costs are estimated taking into consideration existing supply contracts, and long-term forecasts are made for oil, gas or coal prices based on forward markets and estimates available from analysts.
- Fixed costs: these are projected considering estimated levels of activity for each company in terms of trends in personnel, as well as other operating and maintenance costs, forecast inflation and long-term maintenance contracts or other types of contracts.
- External sources (e.g. analysts, domestic and international official bodies, etc) are always used to compare macroeconomic assumptions, such as price trends, growth in gross domestic product (GDP) and demand, inflation, interest rates and exchange rates.

Past experience indicates that the Company's projections are reliable and of high quality, enabling its key assumptions to be based on historical information.

The discrepancies observed in 2017 with respect to the expectations of the forecasts used to carry out impairment tests at 31 December 2016 have not been significant. However, the cash flows generated in 2017 were similar to those envisaged for that year in the impairment tests performed during the preparation of the consolidated financial statements for the year ended 31 December 2016.

At 31 December 2017, ENDESA estimates that any reasonable change in the key assumptions used to calculate the recoverable amount would not result in the carrying amount of the non-financial assets outpacing the recoverable amount.

At 31 December 2017, ENDESA had performed a sensitivity analysis of the results of the impairment test conducted of the Cash-Generating Units (CGU) described at a variation of 50 basis points in the discount and growth rates considered. The results of these sensitivity analyses indicate that neither an adverse modification of the values considered for the discount or growth rates used of 50 basis points would lead to an impairment of assets.

e.3. Recognition of impairments

If the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised for the difference under depreciation and amortisation, and impairment losses in the consolidated income statement. The impairment loss is first allocated to reduce the goodwill allocated to the CGU and then to reduce the carrying amounts of the CGU's remaining assets on a pro rata basis of value in use up to fair value less costs to sell. The resulting amount cannot be negative.

A previously recognised impairment is reversed if there has been a change in the estimate of the asset's recoverable amount. A reversal of an impairment loss is recognised by increasing the carrying amount of the asset with a credit to income. The reversal is limited to the carrying amount of the asset had no impairment loss been recognised. Impairment losses relating to goodwill cannot be reversed.

f) Leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. All other leases are classified as operating leases.

ENDESA assesses the substance of leases that grant the right to use certain assets to determine the existence of implicit leases. In these cases, at inception of the lease, ENDESA separates the lease payments and consideration related to the lease from any other elements in the arrangement.

Finance leases in which ENDESA is the lessee are recognised at the commencement of the lease term. ENDESA recognises an asset according to its nature and a liability for the same amount, equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised as an expense and allocated to income over the lease term so as to obtain a constant interest rate each year applicable to the remaining balance of the liability. The asset is depreciated in the same way as the other similar depreciable assets if there is reasonable certainty that the lessee will acquire title to the asset at the end of the lease term. If no such certainty exists, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis of allocation is more representative.

Contingent rents are recognised as an expense when it is likely that they will be incurred.

g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

g.1. Non-derivative financial assets

For measurement purposes, ENDESA classifies its financial assets at the moment of initial recognition, whether permanent or temporary, excluding investments accounted for using the equity method (see Notes 3h and 11.1) and assets held for sale, into four categories:

- **Loans and receivables:** Loans and receivables are measured at amortised cost, which is the initial fair value, less repayments of the principal, plus the accrued interest receivable calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.
- **Held-to-maturity investments:** These are investments that ENDESA has the positive intention and ability to hold until maturity, and which are measured at amortised cost as defined above. ENDESA did not have any significant investments of this type at 31 December 2017 and 2016.
- **Financial assets at fair value through profit and loss:** These include financial assets held for trading and financial assets designated as at fair value through profit and loss on initial recognition, which are managed and measured on a fair value basis. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value, with net changes in fair value recognised in the consolidated income statement.
- **Available-for-sale financial assets:** These are financial assets designated specifically as available-for-sale or those that do not fall into any of the three categories above (see Note 19.1.2). These assets are recognised in the consolidated statement of financial position at fair value when this can be determined

reliably. Since it is not usually possible to determine reliably the fair value of investments in companies that are not publicly traded, such investments are measured at cost less any identified impairment losses. Changes in fair value, net of the tax effect, are recognised with a debit or credit, as appropriate, to other comprehensive income in the consolidated statement of other comprehensive income (see Note 15.1.6) until these assets are sold, at which time the cumulative balance of this account relating to these investments is recognised in full in the consolidated income statement. If fair value is lower than the acquisition cost and there is objective evidence that the asset is irreversibly impaired, the difference is recognised directly in the consolidated income statement.

Purchases and sales of financial assets are recognised on the trade date.

The criteria for recognising impairment of financial assets is described in Note 3g.3.

g.2. Cash and cash equivalents

Cash and cash equivalents on the consolidated statement of financial position includes cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are recognised on the consolidated statement of financial position as bank borrowings.

g.3. Impairment of financial assets

The following procedure is used to determine whether an impairment loss should be recognised for financial assets:

- For financial assets of a trading nature classified as loans and receivables, provisions are recognised for the amounts for which there is objective evidence that ENDESA will not be able to recover all the amounts under the original contractual terms. ENDESA companies have a general policy of recognising impairment allowances based on the age of the past-due balance, except where specific collectability analysis is advisable, such as for past-due amounts receivable from public entities (see Notes 13 and 20.5).
- In the case of financial assets of a financial nature classified as loans and receivables and held-to-maturity investments, the need to recognise impairment losses is determined by analysis of each specific case, and the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.
- Criteria used for available-for-sale financial investments are detailed in Note 3g.1.

ENDESA recognises impairment losses on financial assets through use of an allowance account. The carrying amount is eliminated against the allowance account when the impairment is deemed to be irreversible. Impairment losses for trade receivables are recognised as an expense under depreciation and amortisation, and impairment losses in the consolidated income statement (Note 29). Reversals in future periods of impairment losses are limited to what the amortised cost of the assets would have been had no impairment loss been recognised. If the impairment is irreversible, the carrying amount of the financial asset is eliminated from the allowance account.

At the date of authorisation for issue of the Consolidated Financial Statements all material past-due financial assets are of a trading nature (Note 20.5).

g.4. Financial liabilities except derivatives

Financial liabilities, which include interest-bearing loans and borrowings and trade and other payables, are generally recognised at the amount received, net of transaction costs. In subsequent periods, these liabilities are measured at amortised cost using the effective interest method (see Note 3g.1).

As an exception, in specific cases where liabilities are the underlying of a fair value hedge, the portion of the hedged risk is measured at fair value.

To calculate the fair value of the debt, for the purpose of recognition in the consolidated statement of financial position and for disclosure of fair value included in Note 18.1, debt has been divided into liabilities bearing interest at a fixed rate and liabilities bearing interest at floating rates:

- Fixed-rate debt is that on which fixed-interest coupons established at the beginning of the transaction are paid explicitly or implicitly over its term.
- Floating-rate debt is that issued at a variable interest rate, i.e. each coupon is established at the beginning of each period on the basis of the reference interest rate. All these liabilities are measured by discounting the expected future cash flows using the market interest rate curve associated with the payment currency.

ENDESA has contracted with several financial entities payment management operations to suppliers ("confirming") (see Note 23). ENDESA applies the criteria set forth in Note 3g.7 regarding whether it should derecognise the original liabilities with trade payables and recognise a new liability with financial entities. Trade payables whose payment is managed by financial entities are recognised under "Trade and other payables" on the consolidated statement of financial position to the degree that only ENDESA has granted the management of payment to financial entities; debts must be paid prior to trade payables.

g.5. Derivatives and hedging transactions

The derivatives held by ENDESA relate mainly to transactions arranged to hedge interest rate risk, foreign currency risk or commodity price risk (electricity, fuel, CO₂ emission rights, CERs and ERUs), the purpose of which is to eliminate or significantly reduce these risks in the underlying hedged transactions.

Derivatives are measured at their fair value at the end of the reporting period. When their fair value is positive, they are carried under "Financial assets", current or non-current depending on their maturity and the intention of holding the derivative until maturity, if they are financial derivatives, and under "Trade and other receivables" if they are commodity derivatives. When their fair value is negative, they are carried under "Interest-bearing loans and borrowings", current or non-current depending on their maturity and the intention of holding the derivative until maturity, if they are financial derivatives, and under "Trade and other payables", if they are commodity derivatives.

Any gains or losses arising from changes in the fair value of derivatives are recognised in the consolidated income statement, except where the derivative has been designated as a hedging instrument and all the requirements for hedge accounting under IFRS have been met; for example, the hedge must be highly effective. In this case, recognition depends on the type of hedge as follows:

- Fair value hedges: The portion of the underlying for which the risk is being hedged and the hedging instrument are measured at fair value, with gains or losses arising from changes in the fair values of both items recognised in the consolidated income statement, netting the effects under the same heading in the consolidated income statement.
- Cash flow hedges: The effective portion of the gain or loss on the derivative is recognised in other comprehensive income in the consolidated statement of other comprehensive income (see Note 15.1.6). The cumulative gain or loss recognised in this account is transferred to the consolidated income statement as the underlying hedged item affects profit or loss. The effects are netted under the same heading in the consolidated income statement. The ineffective portion of the gain or loss on the hedges is recognised directly in the consolidated income statement.
- Hedges of a net investment in a foreign operation: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, net of the related tax effect, is recognised under "Translation differences" in other comprehensive income, in the consolidated statement of other comprehensive income, transferred to the consolidated income statement when the hedged investment is sold.

A hedge is considered to be highly effective when the changes in fair value or in the cash flows of the underlying directly attributable to the hedged risk are offset by the changes in the fair value or cash flows of the hedging instrument with an effectiveness in the range of between 80% and 125%. ENDESA discontinues prospectively the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedging accounting or if it revokes the designation.

ENDESA has entered into commodities forward sale and purchase contracts, mainly for electricity and fuel. In general, these contracts are carried in the consolidated statement of financial position at their market value at the reporting date, with any increases or decreases in value recognised in the consolidated income statement, except when all the following conditions are met:

- The sole purpose of the contract is for own use, i.e. to generate electricity in fuel contracts, and for retail sale in electricity and gas purchase and sale contracts.
- ENDESA's projections support the purpose of these contracts as for own use.
- Past experience of the contracts indicates that contracts have been for own use, except on rare occasions where another use has been necessary as a result of exceptional circumstances or due to logistics management that ENDESA cannot control or predict.
- The contract does not provide for net settlement and there has not been past practice of net settling similar contracts.

ENDESA evaluates whether derivatives are embedded in its contracts and financial instruments to determine if their characteristics and risks are closely related to those of the host contracts provided that the overall contract is not recognised at fair value. If their characteristics and risks are not closely related, the derivatives are separated, with changes in value recognised in the consolidated income statement.

The fair value of the different derivative financial instruments is calculated as follows:

- For derivatives quoted on an organised market, their quoted value at the end of the period.
- In the case of derivatives not quoted on an organised market, ENDESA carries out valuations using internal tools and calculates the fair value of financial derivatives in due consideration of observable market variables, by estimating discounted future cash flows using zero-coupon yield curves for each currency on the last working day of each close, translated to euros at the exchange rate prevailing on the last working day of each close. When the gross market value has been obtained, a "Debt Valuation Adjustment (DVA)" is made in respect of credit risk, or a "Credit Valuation Adjustment (CVA)" in respect of counterparty risk. The measurement of CVA/DVA is based on potential future exposure of the instrument (creditor or debtor position) and the risk profile of the counterparties and of ENDESA's own risk profile. In 2017 and 2016, the value of the adjustments made due to the Credit Valuation Adjustment (CVA) counterparty risk and the Debt Valuation Adjustment (DVA) credit risk were not significant.

In accordance with the procedures described above, ENDESA classifies financial instruments in accordance with the levels stipulated in Note 3s (see Note 19.6).

g.6. Financial guarantee contracts

Financial guarantee contracts, which are the guarantee deposits extended to third parties by ENDESA, are initially recognised at fair value. Except where there is evidence to the contrary, fair value is the premium received plus the present value of any cash flows to be received.

Subsequently, financial guarantee contracts are measured as the difference between:

- The amount of the liability determined according to the accounting principles for provisions see (Note 3k).
- The amount of the initially recognised asset, less the portion taken to the consolidated income statement on an accruals basis.

g.7. Derecognition of financial assets and financial liabilities

Financial assets are derecognised:

- When the contractual rights to the cash flows from the financial asset have expired or been transferred or ENDESA has assumed a contractual obligation to pay the received cash flows to one or more third parties; and

- ENDESA has transferred substantially all the risks and rewards of the asset, or it has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In 2017 and 2016, ENDESA entered into receivables transfer agreements considered factoring without recourse as it transferred the risks and rewards of ownership of the financial assets transferred (see Notes 13 and 31).

For transactions in which ENDESA retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised in liabilities. Transaction costs are recognised on the consolidated income statement using the effective interest method.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation deriving from the liability has been settled, cancelled or has expired.

g.8. Offsetting financial assets and financial liabilities

A financial asset and a financial liability will be offset when the Company has a legally enforceable right to set off the recognised amounts and has the intention to simultaneously realise the asset and settle the liability on a net basis (see Note 19.5).

These rights will only be legally enforceable in the course of normal company operations, or in the event of non-compliance, insolvency or bankruptcy of the counterparty.

h) Investments accounted for using the equity method

Investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in the associate is carried on the statement of financial position at ENDESA's share of the net assets of the associate, adjusted, where applicable, to eliminate intragroup transactions, plus unrealised gains relating to the goodwill paid on acquisition of the company.

If the resulting amount is negative, the investment is carried at zero in the consolidated statement of financial position, unless ENDESA is required to redress the company's equity, in which case the corresponding provision for liabilities and charges is recognised (see Note 11.1).

Dividends received from these companies are deducted from the value of the investment, while ENDESA's share of the profit or loss of these companies based on its percentage of ownership is recognised in the consolidated income statement under net profit of companies accounted for using the equity method.

After the equity method has been applied, for investments the value of which includes unrealised gains relating to the goodwill paid on acquisition of the company, or those that may otherwise show signs of impairment, the recoverable value of the investment is calculated and, if this is less than the carrying amount, impairment is recognised for the difference between the recoverable value of the associate or the joint venture, and the carrying amount (see Note 3g.3).

To calculate the recoverable amount, the higher of the fair value of ENDESA's interest in the investee and the discount of the future cash flows the company is expected to generate is calculated, less ENDESA's proportional share of debt at the reporting date of the financial statements and costs to sell.

For the investment in ENEL Green Power España, S.L.U. (EGPE) held until control was obtained, an impairment test was made based on the assumptions described in Note 3e.2. As a result of this impairment test, at 30 June 2016, an impairment of Euros 72 million was recognised (see Note 5.4 and 11.1).

If, as a result of legal or implicit obligations, when the value of the investee has been reduced any additional losses are incurred, they will be booked by recognition of a liability.

Appendix II to these Consolidated Financial Statements lists ENDESA's associates and joint ventures at 31 December 2017 and 2016.

i) Inventories

In general, inventories are measured at the lower of weighted average cost and net realisable value.

i.1. Nuclear fuel

The cost for acquiring nuclear fuel includes the borrowing costs on the financing while in process. Finance costs of Euros 3 million in 2017 and Euros 3 million in 2016 were capitalised in this respect (see Note 30). Nuclear fuel in process is transferred to operating expenses when introduced in the reactor and recognised in profit and loss based on the power capacity consumed in the period.

i.2. CO₂ emission rights (CO₂), Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs)

ENDESA's companies that emit carbon dioxide emissions (CO₂) in their electricity generation activity must deliver carbon dioxide (CO₂), emission rights (allowances) (European Union Allowances (EUAs), Certified Emission Reductions (CERs) or Emission Reduction Units (ERUs)) in the first months of the following year, equal to their emissions in the preceding year.

Therefore, the criteria for recognising CO₂ emission rights, Certified Emission Reductions (CERs) and Emission Reductions Unit (ERUs) will be to recognise them as inventories, as follows:

- CO₂ emissions rights held as hedges on emissions are valued at the average weighted acquisition price, or the net realisable value, if the latter is lower.
- CO₂ emissions rights held for trading represent a trading portfolio, and are recognised at their fair value less cost to sell, with changes to the consolidated statement of other comprehensive income.

j) Deferred income

ENDESA receives legally established compensation for the amounts paid for the construction or acquisition of certain facilities or, in some cases, is assigned the facilities directly in accordance with prevailing legislation. This heading basically includes:

- Grants related to assets: They are recognised when reasonable certainty exists that their associated conditions will be met. These amounts are recognised under “Deferred income” in the consolidated statement of financial position and taken to the consolidated income statement under “Other operating income” over the useful lives of the assets, thereby offsetting the related depreciation charge.
- Transferred facilities: Assets and deferred income are recognised at the fair value of the asset on the date the assets are transferred and taken to profit and loss under “Other operating income” in the consolidated income statement over the useful life of the asset, thereby offsetting the related depreciation charge.

k) Provisions

Obligations existing at the consolidated statement of financial position date that arise as a result of past events and could have a negative impact on ENDESA's equity, materialisation of which is considered probable, and the amount and settlement date of which are uncertain, are recognised as provisions in the consolidated statement of financial position at the present value of the most probable amount ENDESA will need to disburse to settle the liability.

ENDESA also recognises provisions for liabilities arising from ongoing lawsuits and termination benefits, deposits and similar guarantees and to hedge risks.

Provisions are made based on the best information available at the date of preparation of the Consolidated Financial Statements on the most likely outcome of the event for which provision is required and are re-estimated at the end of each reporting period.

Provisions for pensions and similar obligations and for restructuring plans included in the consolidated statement of financial position are the result of collective or individual agreements with ENDESA's employees,

whereby the Company undertakes to supplement the public social security system benefits in the event of retirement, permanent disability, death, departure or termination of employment by agreement between the parties.

k.1. Provisions for pensions and similar obligations

Most ENDESA companies have pension obligations with their employees, which vary depending on the company. These obligations, including both defined benefits and defined contributions, are basically arranged through pension plans or insurance policies, except as regards certain benefits in kind, mainly electricity supply obligations, which due to their nature have not been externalised and are covered by in-house provisions.

For defined benefit plans, the companies recognise the expenditure relating to these obligations on an accruals basis over the working life of the employees by performing actuarial studies at the reporting date, calculated using the projected unit credit method. Defined benefit plan obligations represent the present value of the accrued benefits after deducting the fair value of the qualifying plan assets. The actuarial losses and gains arising on the measurement of plan liabilities and assets are recognised directly, net of the related tax effect, in other comprehensive income in the consolidated statement of other comprehensive income (see Note 15.1.7).

For each of the plans, any positive difference between the actuarial liability for past services and the plan assets is recognised as provisions for pensions and similar obligations under “Non-current provisions” on the liability side of the consolidated statement of financial position, and any negative difference is recognised as non-current financial assets under “Financial assets – loans and receivables” under non-current assets in the consolidated statement of financial position, provided that this negative difference is recoverable by ENDESA, usually through a reduction in future contributions taking into consideration the limits set by paragraph 57 (b) of IAS 19 *Employee Benefits* and IFRIC 14/ IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The effect of application of this limit is recognised under other comprehensive income in the consolidated statement of other comprehensive income (see Notes 15.1.7 and 17.1).

Contributions to defined contribution plans are recognised as an expense in the consolidated income statement as the employees provide their services.

The post-employment plans that have been fully insured and for which ENDESA has therefore transferred all the risk are considered to be defined contribution plans. Consequently, as in the case of defined contribution plans, no actuarial liabilities or plan assets are considered.

k.2. Provisions for workforce restructuring costs

ENDESA recognises termination or suspension benefits when there is an individual or group agreement with the employees or a genuine expectation that such an agreement will be reached that will enable the employees, unilaterally or by mutual agreement with the company, to cease working for ENDESA or temporarily suspend the employment contract in exchange for a termination benefit. If a mutual agreement is required, a provision is only recorded in situations in which ENDESA has decided to give its consent to the termination of employment, and consent has been notified to the employee either individually or collectively to employee representatives. In all cases in which these provisions are recognised, the employees expect that these retirements will proceed, and that there will be official notification by the Company to the employee or to the employee's representatives.

ENDESA has restructuring plans in progress which arose as part of the corresponding workforce reduction plans approved by the government, or in agreements drawn up with employee representatives. The plans guarantee payment of an indemnity or maintenance of regular payments during the period of early retirement or suspension of the employment contract.

ENDESA recognises the full amount of the expenditure relating to these plans when the obligation is accrued, understood as the time at which the company is unable to prevent the disbursement, depending on the commitments undertaking with the employee or the employee's representatives. These sums are determined, where appropriate, from actuarial surveys conducted to calculate the actuarial obligation at period-end. The actuarial gains and losses disclosed are recognised in the consolidated income statement.

k.3. Provision to cover the cost of carbon dioxide emission allowances (CO₂).

ENDESA's European companies that emit CO₂ in their electricity generation activity must deliver CO₂ emission rights (allowances), Certified Emission Reductions (CERs) or Emission Reduction Units (ERUs) equal to their emissions during the year in the first few months of the preceding year.

The obligation to deliver emission allowances for the CO₂ emitted during the year is recognised as a current provision under "Other current provisions" in the consolidated statement of financial position (see Note 24). The related cost is recognised under "Other variable procurements and services" in the consolidated income statement. This obligation is recognised at the same amount as the CO₂ emission allowances, Certified Emission Reductions (CERs), or Emission Reduction Units (ERUs) to be delivered to cover this obligation in intangible assets in the consolidated statement of financial position (see Note 3i.2).

If at the reporting date of the consolidated statement of financial position ENDESA does not hold all the CO₂ emission allowances, CERs, or ERUs required to cover its emissions, the cost and the corresponding provision are recognised on the basis of a best estimate of the price that ENDESA will have to pay to acquire them. When a more appropriate estimate does not exist, ENDESA estimates the acquisition price for the allowances not held by it as the market price at the reporting date.

k.4. Provisions for decommissioning costs

ENDESA recognises a provision for the expected cost to dismantle some of its plants and certain electricity distribution facilities (see Notes 3a, 3b, 3d and 17.3). Provision adjustments are recognised with a charge to financial expenses in the consolidated income statement (see Note 30). The interest rates applied during the corresponding adjustments ranged from 0.1% to 1.5% during 2017, depending on the remaining useful life of the associated asset (between 0.0% and 1.2% in 2016).

k.5. Onerous contracts

In the case of contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it (onerous contracts), ENDESA recognises a provision for the present value of the difference between the costs and foreseen benefits of the contract.

At 31 December 2017 and 2016, no provisions for onerous contracts have been made.

l) Translation of foreign currency balances

Transactions in currencies other than the functional currency of each company are recognised in the functional currency by applying the exchange rates prevailing at the transaction date. During the year, differences arising between the balances translated at the exchange rate at the transaction date and those translated at the exchange rate at the date of collection or payment are recorded as financial income or financial expenses in the consolidated income statement (see Note 30).

Balances receivable or payable at year-end denominated in currencies other than the functional currencies in which the financial statements of the consolidated companies are denominated are translated to euros at year-end exchange rates. The resulting valuation differences are recognised as financial profit or loss in the consolidated income statement (see Note 30).

m) Current/non-current classification

In the accompanying consolidated statement of financial position, balances due to be settled within 12 months are classified as current and those due to be settled in a period of more than 12 months are classified as non-current.

In the case of those obligations that mature at short term but with respect to which the expectation and power, at ENDESA's discretion, exists of long-term refinancing through credit facilities available immediately on an unconditional basis, in accordance with the existing financing conditions, and whose claimability exceeds 12 months from the closing date of the Consolidated Financial Statements, are classified as non-current liabilities. At 31 December 2017 and 2016 these balances amounted to Euros 17 million (see Note 18.2.1).

n) Income tax

In 2017, all ENEL Group companies with respect to which ENEL, S.p.A. (the Italian company that heads the ENEL Group) holds an interest of at least 75% or 70% (in the case of listed investees or subsidiaries), and which meet requirements provided for in Spanish legislation on taxation of the consolidated profits of corporate groups, have been integrated into a tax group, the head of which is ENEL, S.p.A. and its representative in Spain is ENEL Iberia, S.L.U.

The number of companies forming the Consolidated Tax Group at 31 December 2017 is 35 (26 at 31 December 2016) as detailed below: ENEL Iberia, S.L.U., ENDESA, S.A., Almussafes Servicios Energéticos, S.L.U., Aragonesa de Actividades Energéticas, S.A.U., Distribuidora de Energía Eléctrica del Bages, S.A., Distribuidora Eléctrica del Puerto de la Cruz, S.A.U., Eléctrica del Ebro, S.A.U., Empresa Carbonífera del Sur, S.A.U., ENDESA Capital, S.A.U., ENDESA Distribución Eléctrica, S.L.U., ENDESA Energía, S.A.U., ENDESA Energía XXI, S.L.U., ENDESA Financiación Filiales, S.A.U., ENDESA Generación, S.A.U., ENDESA Generación II, S.A.U., ENDESA Generación Nuclear, S.A.U., ENDESA Ingeniería, S.L.U., ENDESA Medios y Sistemas, S.L.U., ENDESA Operaciones y Servicios Comerciales, S.L.U., ENDESA Red, S.A.U., ENEL Green Power España, S.L.U. (EGPE), ENEL Produzione, S.p.A. (Spain branch), Energía Eléctrica del Ebro, S.A.U. (in liquidation), Energías de Aragón I, S.L.U., Energías de Aragón II, S.L.U., Energías Especiales del Alto Ulla, S.A.U., Gas y Electricidad Generación, S.A.U., Guadarranque Solar 4, S.L.U., Hidroeléctrica de Catalunya, S.L.U., Minas Gargallo, S.L., Parque Eólico A Capelada, S.L.U., Parque Eólico Aragón, S.L.U., Promociones Energéticas del Bierzo, S.L.U., Serra do Moncoso-Cambás, S.L.U. and Unión Eléctrica de Canarias Generación, S.A.U.

ENDESA's other subsidiaries file individual tax returns in accordance with the tax legislation in force in each country.

In 2017 ENDESA acquired interests in Eléctrica de Jafre, S.A., Baylio Solar, S.L.U., Dehesa de los Guadalupe Solar, S.L.U., Furatena Solar 1, S.L.U., Productor Regional de Energía Renovable, S.A.U., Productor Regional de Energías Renovables III, S.A.U. and Seguidores Solares Planta 2, S.L.U. (see Note 2.3.1). At 1 January 2018, the companies meeting the requirements provided for in legislation on taxation of the consolidated profits of corporate groups have been included in the consolidated tax group to which ENDESA belongs.

In 2016, ENDESA acquired interest in the parent of two consolidated tax groups (see Notes 5.4 and 5.5): the consolidated tax group headed by ENEL Green Power España, S.L.U. (EGPE) and the consolidated tax group headed by Eléctrica del Ebro, S.A.U. At 1 January 2017, the companies forming these two groups, which met the requirements provided for in legislation on taxation of the consolidated profits of corporate groups, were included in the consolidated tax group to which ENDESA belongs.

The income tax expense for the year is calculated as the sum of the current tax of the different companies resulting from applying the tax rate to the taxable income (tax loss) for the year, after taking into account any available tax deductions, plus the change in deferred tax assets and liabilities, and tax credits for loss carryforwards and deductions. The differences between the carrying amount of assets and liabilities and their tax base give rise to deferred tax assets or liabilities, which are measured at the tax rates that are expected to apply to the years when the assets are realised and the liabilities settled.

Income tax and changes in deferred tax assets and liabilities not arising from business combinations are recognised in the consolidated income statement or in equity accounts in the consolidated statement of financial position, depending on where the profits or losses giving rise to them have been recognised.

Deferred tax assets and tax credits are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which the related temporary differences can be recovered or the related tax assets can be utilised.

Deferred tax liabilities are recognised for all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill or in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, when ENDESA can control the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future. Tax credits arising from economic events occurring in the year reduce the income tax expense, unless there are doubts as to whether they can be realised, in which case they are not recognised until they have effectively been realised.

The deferred tax assets and liabilities recognised are reviewed at the end of each reporting period in order to ascertain whether they still exist, and the appropriate adjustments are made.

On 28 November 2014 Spain's Official State Gazette (BOE) published Law 27/2014 of 27 November on Corporate Income Tax, establishing a transitory tax rate of 28% for 2015 and a general tax rate of 25% as of 2016.

Under the prevailing legislation, taxes cannot be considered definitively settled until the returns presented have been inspected by the tax authorities or inspection period of four years has elapsed. At 31 December 2017, the Consolidated Tax Group has its books open to inspection for 2006, 2011 and onwards for corporate income tax and for 2012 and onwards in respect of all other applicable taxes.

In 2017, the tax authorities continued their review of corporate income tax, VAT and withholdings started in 2016, which could give rise to contingent liabilities. At 31 December 2017, information was being collected and analysed by the tax authorities, accordingly, it is not possible to estimate the possible economic consequences of the procedure.

The taxes and years open to review are as follows:

	Year ⁽¹⁾
Income tax expense	2011 to 2014
Value added tax (VAT)	March/2012 to December/2014
Withholdings / payments on account (employees and freelancers)	2011 to 2014
Withholdings / payment on account (investment income)	March/2012 to December/2014
Withholdings / payments on account (non-resident taxes)	March/2012 to December/2014
Withholdings / payments on account (property leases)	March/2012 to December/2014

(1) Corresponds to the years and taxes open for inspection of the consolidated tax group.

o) Recognition of income and expense

Income and expenses are recognised on an accruals basis, on the following criteria:

- Income from electricity and gas sales is recognised when the commodities are supplied to the customer, depending on the amounts supplied during the period, even if not yet billed. Revenue therefore includes an estimate of the energy supplied before customers' meters have been read (see Notes 2.2 and 13).
- In relation to revenue from distribution business, the Spanish electricity regulatory framework establishes remuneration annually via a Ministerial Order (See Note 4). The Spanish Markets and Competition Commission (CNMC) makes arrangements for payment of the acknowledged remuneration to electricity distribution companies.
- Electricity revenue on the wholesale market is recognised as income in accordance with the best estimate of electricity delivered and ancillary services supplied.
- Additional income to the average mainland price is recognised for generation using renewable sources, cogeneration and waste subject to a specific remuneration regime, equivalent to said specific remuneration (see Note 4).
- The remuneration of generation activity in Non-mainland Territories systems is regulated (see Note 4). To attain the level of remuneration established, compensations to reach the regulated remuneration are recognised as income, in addition to the valuation of energy sold at the average mainland price.

Revenue is calculated in accordance with the substance of the operation, and is recognised when all of the following conditions are met:

- All the risks and rewards of ownership of the assets have been transferred to the customer, irrespective of whether or not the legal ownership has been transferred.
- The assets are not managed, and effective control is not maintained.
- It is likely that economic benefits will be received on the transaction, and that these benefits will bring about an increase in equity that is not related to contributions from equity holders.

- The expected benefits and costs incurred can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

In contracts with several components, the criterion for recognition will be applied to each separate identifiable component in order to reflect the commercial substance of the transaction. The criterion for recognition, however, will apply to two or more transactions, on a joint basis, when they are related, in such a way that the commercial impact cannot be understood without reference to the full set of transactions.

Revenue from services rendered is only recognised if it can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. When the outcome of a transaction involving the provision of services cannot be reliably estimated, revenue is recognised for the amount in respect of which recognised expenses are considered to be recoverable.

ENDESA excludes from income gross inflows of economic benefits received when acting as an agent or commission agent on behalf of third parties, and only recognises income from its own activity.

When goods or services are exchanged or swapped for goods or services which are of a similar nature, the exchange is not regarded as a transaction that generates income.

ENDESA recognises non-financial asset purchase or sale contracts settled net in cash or another financial instrument at their net amount. Contracts entered into and maintained for the purpose of receiving or delivering these non-financial assets are recognised on the basis of the contractual terms of the purchase, sale or usage requirements expected by the entity.

Interest income is recognised by reference to the effective interest rate applicable to the outstanding principal over the related repayment period.

Expenses are recognised on an accruals basis. Disbursements that will not generate future economic benefits or which do not qualify for recognition as an asset are recognised immediately.

p) Earnings (loss) per share

Basic net earnings per share are calculated by dividing net profit for the period attributable to the Parent by the weighted average number of ordinary shares outstanding during the period, excluding the average number of shares of the Parent Company held by ENDESA.

The basic earnings per share of continuing and discontinued operations are calculated by dividing profit after tax of continuing and discontinued operations, respectively, minus the portion corresponding to non-controlling interests, by the weighted average number of ordinary shares of the Parent Company outstanding during the period, excluding the average number of shares of the Parent Company held by ENDESA.

In 2017 and 2016, ENDESA did not perform any potentially dilutive transactions that could cause diluted earnings per share to differ from basic earnings per share (see Note 15.1.11).

q) Dividends

Dividends are recognised when the right to collect them is generated.

Dividends are recognised as a reduction in equity on the date on which they are approved by the competent body, which is usually the board of directors in the case of interim dividends and the shareholders at their general meeting of shareholders in the case of dividends charged against reserves or final dividends (see Note 15.1.9).

r) Statement of cash flows

The statement of cash flows reflects the changes in cash occurring during the year in relation to both continuing and discontinued operations, calculated using the indirect method (see Note 33). The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are investments with a term of less than three months that are highly liquid and subject to an insignificant risk of changes in value (see Note 3g.2).
- Operating activities: The principal revenue-producing activities of ENDESA, as well as other activities that are not investing or financing activities. They include dividends received as well as the collection and payment of interest.
- Investing activities: The acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents. Net flows from investment activities include those corresponding to losing and gaining control over Group companies.
- Financing activities: Activities that result in changes in the amount and composition of equity and financial liabilities. Net cash flows from financing activities include dividends paid.

s) Fair value measurement

Fair value is defined as the price that would be collected for the sale of an asset or that would be paid for the transfer of a liability, in an orderly transaction between market players at the valuation date.

The valuation is calculated on the premise that the transaction is carried out on the main market, i.e. the market with the largest volume or activity of the asset or liability. In the absence of a main market, it is assumed that the transaction is carried out on the most advantageous market, i.e. that which maximises the amount received from selling the asset or that which minimises the amount paid to transfer the liability.

The fair value of the asset or the liability is determined by applying the assumptions that would be made by the market players at the time the price of the asset or liability is set, on the understanding that the market players are acting in their best economic interests. The market players are independent of each other, they are well informed, they can carry out a transaction with the asset or liability, and are motivated to carry out the transaction but are not in any way obliged or forced to do so.

Assets and liabilities measured at fair value may be classified on the following levels (see Note 19.6):

- Level 1: Fair value is calculated from quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The methods and assumptions used to determine fair value within Level 2 by class of assets or liabilities take into account the estimate of future cash flows discounted to present value using zero-coupon yield curves for each currency on the last working day of each closing, translated to Euros at the exchange rate prevailing on the last working day of each closing. All these measurements are made using internal tools.
- Level 3: Fair value is calculated from inputs for assets or liabilities that are not based on observable market data.

ENDESA uses valuation tools to measure the fair value of assets and liabilities that are suited to the circumstances and for which sufficient data are available to appraise fair value, making maximum use of major observable variables and minimum use of non-observable variables.

t) Share-based payment plans

Where ENDESA employees participate in a remuneration scheme tied to ENDESA, S.A. share prices, and this Company assumes the cost of the scheme, ENDESA recognises the fair value of ENDESA's obligation to employees as an expense under the heading "Personnel expenses" in the consolidated income statement (see Note 35.3.5).

4. Industry regulation

However, following the energy reform begun by the government in 2012, on 27 December 2013, Law 24/2013 of 26 December on the electricity sector was published in the Official State Gazette (BOE), repealing and replacing the aforementioned Law 54/1997, of 27 November, and establishing a new general operating framework for the electricity sector. Therefore, Law 24/2013 of 26 December establishes a new general framework for the sector, as well as its activities and agents, the most significant of which follows:

- The new law introduces the basic principle of the economic and financial sustainability of the electricity system in such a way that revenues are sufficient to cover all system costs. System costs will be financed by access charges for transmission and distribution networks (to cover remuneration of both activities), charges established for payment of other costs, packages from the General State Budget and any other revenue or financial mechanism established. Also:
 - Any increase in costs or reduction in revenues must be accompanied by an equivalent reduction of other costs or a revenue increase. Simultaneously, no charges may decrease as long as there are cost items used to pay debt from previous years.
 - From 2014 onwards, temporary imbalances that may arise will be limited to a maximum annual amount of 2% of the estimated system revenue (or 5% in cumulative terms). Any transitory imbalance will be financed by all players taking part of the settlement system, in proportion to their remuneration. If these limits are exceeded, access fees or charges will be reviewed by an equivalent amount. Within these limits, any imbalance will entitle the financing parties to recover those funds in the five following years, at an equivalent market interest rate.
 - With regard to the year 2013, a maximum deficit of Euros 3,600 million is recognised, without prejudice to any timing mismatches that may arise. This deficit will generate a recovery entitlement over the fifteen years following, at an equivalent market interest rate. These rights may be transferred, in accordance with the procedure established in regulations.
 - The General State Budget for each year will finance 50% of compensation for Non-mainland Territories electricity systems for that year.
- Concerning remuneration for activities, the law stipulates that remuneration for transmission, distribution and production in Non-mainland Territories systems and production from renewable energy sources, high-efficiency cogeneration and waste will take into account the costs of an efficient and well-managed company. Remuneration parameters will be established in due consideration of the cyclical situation of the economy, demand for electricity and an adequate return on these activities over six-year regulatory periods. The law establishes the remuneration of assets for the first regulatory period (which ends on 31 December 2019) as the average yield on 10Y treasury bills on the secondary market for the three months prior to entry into force of Royal Decree Law 9/2013 of 12 July, plus 200 basis points for transmission, distribution and production in Non-mainland Territories systems, plus 300 basis points for production from renewable energy sources, high-efficiency cogeneration and waste.
- The differentiation between ordinary regime and special regime power generation has also been removed, without prejudice to specific considerations for certain technologies.
- The Last Resort Tariff (LRT), which applies to most domestic consumers, will be renamed as Small Consumer Voluntary Price, and the Last Resort Tariff will be maintained for vulnerable consumers and those that do not meet the requirements to be eligible for the Small Consumer Voluntary Price tariff and temporarily do not have a current contract with a free-market supplier.

Along with this basic law, and in relation to the energy reform process, a number of provisions have been approved since 2012 to reduce the deficit of regulated activities and guarantee the financial stability of the system. These include Royal Decree-Law 9/2013 of 12 July, adopting urgent measures to guarantee the financial stability of the electricity system and modifying, inter alia, the remuneration system for generating facilities using renewable energy, cogeneration and waste, and electricity transmission and distribution activities.

Additionally, Law 15/2012 of 27 December on fiscal measures for energy sustainability, which came into force on 1 January 2013, introduced new taxes (or amendments to existing taxes) affecting generating facilities. The following taxes were introduced:

- General tax on ordinary and special regime generation, equivalent to 7% of total revenues generated.
- Tax on nuclear fuel spent and radioactive waste, and storage at centralised facilities.
- Levy on hydro output, equivalent to 22% of revenues. This levy will be reduced by 90% for plants with installed capacity equal to or less than 50 MW and for pumped-storage hydro plants of over 50 MW. This reduction will also apply to any output or facilities defined by regulations that have to be supported to fulfil general energy policy.
- A "green cent" tax on consumption of electricity generated using natural gas, coal, fuel-oil or diesel.

The provisions of this law stipulate that the taxes collected, along with other sums from the auction of greenhouse gas emission allowances, will be used to finance the costs of the electricity system.

Additionally, in 2013 the Government launched other regulatory developments on different activities associated with the provision of electric energy.

Remuneration of the electricity distribution activity

Royal Decree 1048/2013 of 27 December was published on 30 December 2013, establishing the methodology for calculating remuneration for power distribution, extending from Royal Decree Law 9/2013 of 12 July and Law 24/2013 of 26 December. These aim to provide a stable predictable methodology to guarantee, under homogeneous criteria nationwide, appropriate return at the lowest possible cost to the system. The chief aspects of this methodology follow:

- Investment in non-amortised assets in service will be remunerated in due consideration of the net value of the assets and a financial remuneration rate based on 10Y treasury bills plus 200 basis points, in addition to the operation and maintenance of the assets.
- There will be remuneration for the costs required to carry out distribution activities, such as meter reading, supply contract process, billing access charges and management of non-payments, customer phone service, charges for occupancy of public areas and structural costs.
- There are incentives and penalties in connection with improvements to supply quality, reducing losses on distribution networks, and a new fraud reduction incentive.
- The extra costs of specific regulations introduced by regional or local authorities will not be borne by the electricity tariff.
- Collection of the payment of remuneration for facilities commissioned in year n will start from 1 January of the year $n+2$, and a financial cost will be recognised.
- Mechanisms have been established to control investment. For the whole sector, the maximum volume of authorised investment has been limited to a total of 0.13% of Gross Domestic Product (GDP). Distributors will submit to the Ministry of Energy, Tourism and Digital Agenda their yearly and pluri-annual investment plans for approval, and will also require a favourable report from the regional authorities concerned. Limits are also established for deviations from the standard, just recognising part of the extra costs, which must be duly justified and audited. Volumes of investment will also be reduced in the event of non-compliance with the plans established, and the possibility to bring forward the construction of a facility is established, provided it is already envisaged and its cost is not borne by the system.

The format established in the Royal Decree will apply when the first regulatory period commences, and until that time the transitory system established in Royal Decree-Law 9/2013 of 12 July will be applicable.

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, Royal Decree 1073/2015, of 27 November, 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 set the beginning of the first regulatory period as at 1 January 2016.

On 17 June 2016, Ministerial Order IET/980/2016, of 10 June 2016, was published in the Official State Gazette, setting remuneration on distribution activity for 2016 and awarding ENDESA a remuneration for the development of this activity of Euros 2,032 million (Euros 2,040 million considering incentives), of which Euros 2,014 million and Euros 2,023 million, respectively, corresponded to ENDESA Distribución Eléctrica, S.L.U. On 15 September 2017, the announcement of the Deputy Head of Resources, Claims and Relations with the Ministry of Justice was published in the Official State Gazette (BOE), informing of the hearing procedures for the order issued by the Ministry of Energy, Tourism and Digital Agenda, initiating the procedure to file a declaration of adverse effect on the public interest of Ministerial Order IET/980/2016, of 10 June.

On the other hand, recently, the Ministry of Energy, Tourism and Digital Agenda has initiated the application of the Order by which the compensation of the distribution for 2017 is established, corresponding to ENDESA a remuneration for the development of this activity of Euros 2,116 million (Euros 2,092 million considering the incentives), of which Euros 2,094 million and Euros 2,070 million, respectively, correspond to ENDESA Distribución Eléctrica, S.L.U.

The amounts recognised in application of this regulation at 31 December 2017 are described in Note 19.1.1.

Non-mainland Territories electricity systems (TNP)

Electricity supply activities in Non-mainland Territories are subject to a specific regulation addressing the particular nature of their geographic locations. This special regulation was developed by Royal Decree 1747/2003 of 19 December 2003 and the Ministerial Orders of 30 March 2006 which implemented this Royal Decree.

The main element of the non-mainland regulatory system was that electricity production was remunerated under the feed-in tariff system, unlike in mainland Spain, in view of the specific features of these systems.

Among the adjustment measures adopted in 2012, the government introduced a series of measures impacting, inter alia, remuneration of the non-mainland electricity distribution activity. Specifically, Royal Decree-Law 13/2012 of 30 March stipulates that a proposal will be made for a review of the remuneration system for Non-mainland Territories generation. Subsequently, Royal Decree-Law 20/2012 of 13 July, on measures to guarantee budgetary stability and promote competition, modified certain specific aspects of recognised costs in the ordinary regime for Non-mainland Territories electricity systems, stating that any review, as stipulated in Royal Decree-Law 13/2012 of 30 March, would apply as of 1 January 2012.

On 30 October 2013, Law 17/2013 of 29 October was published in the Official State Gazette. Its aim is to provide a better guarantee of supply and increase competition in Non-mainland Territories systems, and the main aspects are as follows:

- For reasons of safety or technical and economic efficiency, additional remuneration to the mainland spot market price may be given for new generation facilities in Non-mainland Territories electricity systems, even if power output required to cover demand is exceeded.
- The new regime will not be applied to new facilities in island and Non-mainland Territories electricity systems (either under the ordinary or CHP/renewable regimes) owned by a company or business group which holds more than 40% of generating power in the system. An exception is made in the case of facilities awarded through capacity tenders for the deployment of renewable energy sources holding administrative authorisation or have been registered in the remuneration pre-assignment register for the CHP/renewable regime. Another exception is made for investment in upgrading and improving efficiency at plants already in operation which do not entail an increase in capacity or where there are no other agents interested in developing facilities.

- The System Operator will be the owner of pumped-storage hydro plants intended to guarantee security of supply, or the integration of renewable sources. In all other cases an award procedure will be carried out. Notwithstanding the above, any company holding a hydroelectric operating concession granted before 1 March 2013, or which had been granted administrative authorisation but had not been granted authorisation to bring the plant on stream, will retain ownership but will be liable for a guarantee amounting to 10% of the total investment and adhere to an execution timetable.
- Regasification plants will be exclusively owned by the Technical System Operator, and the facilities concerned must be transferred within 6 months at market price. If the facility does not have administrative authorisation, the price will be limited to the total costs actually incurred up to 1 March 2013.
- Remuneration associated with fuel costs will be established by a mechanism taking account of the principles of competition, transparency, objectivity and non-discrimination.
- A compatibility ruling by the Department of Energy Policy and Mines will be necessary for the approval of new groups, to ascertain that the facility is compatible with the technical criteria stipulated by the System Operator and economic cost-reduction criteria.
- There is a possibility of reducing remuneration at facilities in island and Non-mainland Territories electricity systems in the event of a substantial decrease in their availability, the guarantee of supply or the supply quality indexes attributed to generating facilities. It is also possible that the government will take action in the electricity sector to guarantee supply in situations of risk.

Moreover, within the context of the reform measures for the energy sector approved by the Council of Ministers on 12 July 2013, the government began to process several regulatory developments that relate, among other matters, to generation in Non-mainland Territories systems.

On 1 August 2015, the Spanish Official State Gazette published the Royal Decree 738/2015, of 31 July, on Non-mainland Territories generation. This Royal Decree established a scheme similar to the current scheme, made up of remuneration for fixed costs, which comprises fixed investment and fixed operations and maintenance costs, and for variable costs, including fuel and variable operations and maintenance costs, also taking 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 was set to enter into force from 1 September 2015, considering a transitory period as from 1 January 2012 for certain measures. In accordance with Additional Provision Eleven, its full and definitive effectiveness is subordinated to the non-existence of objections by the European Commission with respect to its compatibility with the EU regulations in question.

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.

The amounts recognised in application of this regulation at 31 December 2017 are described in Note 19.1.1.

Electricity generation using Spanish coal

Royal Decree 134/2010 of 12 February 2010, amended by Royal Decree 1221/2010 of 1 October 2010, established a mechanism to guarantee the output from certain power plants that use Spanish coal, for reasons of supply security, setting a regulated price for its remuneration. This Royal Decree was first applied in February 2011, and application concluded on 31 December 2014.

Production from renewable energy sources, cogeneration, and waste

Royal Decree 413/2014 of 6 June approved a new remuneration framework for facilities producing electricity from renewable energy sources, combined heat and power, and waste, following Royal Decree Law 9/2013, of 12 July, adopting urgent measures to ensure the financial stability of the electricity system, and Electricity Industry Law 24/2013, of 26 December.

The new methodology replaces the previous regulated tariff structure with a new framework that applies the concept of reasonable return, guaranteeing a profit before tax based on the average yield of 10-year treasury bills plus 300 basis points. Under this new framework, in addition to remuneration for the sale of electricity valued at market price, facilities will be eligible to receive a specific remuneration consisting of a term per unit of installed capacity which covers, where appropriate, the investment costs for a standard facility that cannot be recovered through electricity sales on the market, which is known as return on investment, and an operating term which covers, where applicable, the difference between the operating costs and the income from the investment on the production market for this standard facility, which is known as return on operations.

The new remuneration system will be applied equally to facilities already in operation and new installations. For new facilities, adherence to the specific remuneration regime will be established through a series of competitive procedures.

In Non-mainland Territories, an incentive is established for investment when generation costs are reduced.

The regulation also establishes the terms under which remuneration parameters should be reviewed. These may only be modified, as applicable, every six years, every three years or every year. The standard value of the initial investment and the regulatory useful life of the asset will remain unchanged once they have been recognised for each standard facility.

Ministerial Order IET/1045/2014, of 16 June, approving the remuneration parameters for standard facilities applicable to certain facilities producing electricity from renewable energy sources, combined heat and power, and waste, and establishing specific values for the standard costs for each of the standard facilities defined, was published in the Official State Gazette on 20 June 2014.

Lastly, Ministerial Order IET/1459/2014, of 1 August, approving the remuneration parameters and establishing a mechanism for allocating remuneration for new wind and photovoltaic facilities in electrical systems of Non-mainland Territories electricity systems, was published in the Spanish Official State Gazette on 5 August 2014.

Ministerial Order ETU/130/2017 of 17 February was published on 22 February 2017, updating the remuneration parameters of the standard installations, for the purposes of their application to the regulatory semiperiod commencing 1 January 2017.

The amounts recognised in application of this regulation at 31 December 2017 are described in Note 19.1.1.

Renewable energy auction

On 1 April 2017, the Official State Gazette (BOE) published Royal Decree 359/2017 of 31 March, establishing a call for assigning the specific remuneration system for new renewable energy production facilities through an auction with a maximum installed power limit of 3,000 MW.

This Royal Decree was enacted by Order ETU/315/2017 of 6 April, regulating the procedure for assigning the specific remuneration system in each auction, in addition to the remuneration parameters for reference and standard facilities and characteristics of the auction, and the Resolutions issued by the Secretary of State for Energy on 10 April 2017 approving the call for an auction and the terms and conditions thereof.

As a result of this auction, which took place on 17 May 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded a 540 MW of wind power capacity (see Notes 2.3, 5.3, 6.1 and 39).

Additionally, on 17 June 2017, Royal Decree 650/2017, of 16 June 2016, was published in the Official State Gazette (BOE), establishing a new installed capacity quota of 3,000 MW for new plants that generate power using renewable energy sources, enacted by Order ETU/615/2017, of 27 June, that establishes the assignment procedure and remuneration parameters for the auction, the Resolution issued by the Secretary

of State for Energy on 30 June 2017, calling for an auction for the assignment of the specific remuneration regime for new renewable energy production facilities, pursuant to Royal Decree 650/2017, of 16 June.

As a result of this auction, which took place in July 2017 ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 339 MW of photovoltaic capacity (see Notes 2.3, 5.3, 6.1 and 39).

Self-consumption

On 10 October 2015, the Official State Gazette published Royal Decree 900/2015, of 9 October, which regulates the administrative, technical and economic requirements for supplying and generating electricity for self-consumption, establishing a regulatory framework that guarantees the economic sustainability of the system and the 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 in which 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.

Fee for the use of continental waters to generate electricity

On 10 June 2017, Royal Decree Law 10/2017 of 9 June was published in the Official State Gazette (BOE), establishing specific urgent measures to mitigate the effects of drought in certain river basins, amending the current Water Law.

Among other aspects, this Royal Decree Law modifies the tax on the fee for using continental waters to produce electric power from 22% to 25.5%, with a reduction for plants with capacity of up to 50 MW to offset the tax increase.

Availability service.

On 23 November 2017, Order ETU/1133/2017, of 21 November, was published, amending Order IET/2013/2013, of 31 October, regulating the competitive mechanism for assigning the management service for interruptibility demand.

Among other aspects, the Order amends the remuneration for the availability service, extends the service to the first half of 2018 and eliminates hydro facilities from the collection of this availability service during this period.

Social Bonus

Law 24/2013, of 26 December 2013, required that the subsidised electricity tariff cost must be assumed, as a public service obligation, by parent companies or vertically-integrated groups of companies carrying out electricity generation, distribution and supply activities, to assume the cost of the subsidised electricity tariff in proportion to a percentage based on both their number of supply connections to distribution grids and the number of customers supplied, set for ENDESA at 41.10% in 2016 under Ministerial Order IET/1451/2016, of 8 September.

Despite the foregoing, in the Ruling of 24 October 2016 the Contentious-Administrative Section of the Supreme Court declared the Social Bonus financing system established by article 45.4 of Law 24/2013 of 26 December to be inapplicable, since it was incompatible with Directive 2009/72/EC of the European Parliament and of the Council, of 13 July 2009, concerning common rules for the internal market in electricity, and acknowledged the right of companies to recover the amounts paid. The State authorities submitted an application for dismissal of the Supreme Court Ruling, which was overruled in a motion handed down on 14 December 2016, and on 2

February 2017 an appeal was submitted against this motion before the Constitutional Court (see Note 17.3). On 3 October and 27 December 2017 Order ETU/929/2017, of 28 September and Order ETU/1288/2017, of 22 December, were published, implementing the different rulings handed down in this respect and the Spanish Markets and Competition Commission (CNMC) was ordered to pay the amounts corresponding to the Social Bonus for 2014, 2015 and 2016.

In 2017, the Company recognised this income in the consolidated income statement for the amount of Euros 222 million under “Other variable procurements and services” and Euros 15 million under “Financial income” (see Note 30), which has been collected in full at the date of preparation of this Consolidated Financial Statements (see Notes 26 and 30).

On 24 December 2016, Royal Decree-Law 7/2016 of 23 December was published to regulate the financing of the costs of the Social Bonus and other measures to protect vulnerable electricity consumers. According to this Royal Decree Law the Social Bonus will be financed by the parents of company groups that carry out energy supply activities, or by the companies themselves if they do not form part of a corporate group, in the percentage corresponding to their customer share. This percentage will be calculated annually by the CNMC.

The sole transitional provision of the Royal Decree Law establishes the percentage distribution for the Social Bonus to be applied since it came into effect, with 37.7% corresponding to ENDESA in 2017.

In January 2018, the Spanish Markets and Competition Commission (CNMC) published the proposed percentage of financing for 2018, with 37.14% corresponding to ENDESA.

On 7 October 2017, Royal Decree 897/2017, of October 6, regulating the figure of the vulnerable consumer, the Social Bonus and other protection measures for domestic electricity energy consumers, as well as Order ETU/943/2017, of 6 October, implementing Royal Decree 897/2017 of 6 October.

Among other aspects, three categories of vulnerable customers have been identified based on the income level through the Spanish Income Public Indicator of Multiple Effects (“IPREM”), establishing different discount percentages according to each category. In particular, the three categories that are defined are:

- Vulnerable customers (25% discount).
- Severe vulnerable customers (40% discount).
- Severe vulnerable customers at risk of social exclusion (100% discount), the latter being those classified as severe vulnerable customers for which it can be demonstrated that social services are paying at least 50% of their invoice.

This Royal Decree also regulates other aspects relating to supply and, among others, raises from two to four months the term for cutting off of supply to vulnerable customers (severely vulnerable customers at risk of social exclusion cannot be cut off, as power is considered to be a basic supply).

Deficit from regulated activities

Royal Decree-Laws 6/2009 of 30 April 2009, and 6/2010 of 9 April 2010, stipulated that as of 2013 any grid access charges established should be sufficient to cover all electricity system costs, with no ex ante deficit. For the 2009-2012 period, Royal Decree Law 6/2009 of 30 April 2009 capped the deficit for each year and the access charges established for those years must be sufficient to prevent those limits being exceeded. These limits were changed under Royal Decree-Law 14/2010 of 23 December and by Royal Decree-Law 29/2012 of 28 December.

The aforementioned Royal Decree-Laws in turn regulated the securitisation of the collection rights accumulated by the electricity companies on financing that deficit, including compensation for as yet unrecovered extra-costs in Non-mainland Territories generation for the 2001-2008 period.

Moreover, this legislation requires that, in the event of any mismatch in the timing of settlements of regulated activities, a certain percentage should be financed by the companies specified in the above-mentioned legislation (44.16% corresponds to ENDESA), and that these companies are entitled to recover the amounts paid in settlements of regulated activities for the year in which they are recognised.

Royal Decree 437/2010, of 9 April, regulated the securitisation of the electricity system deficit generated until 31 December 2012, and Royal Decree 1054/2014, of 12 December, regulated the deficit generated in 2013. With the transfers made under these Royal Decrees, the last of which was agreed on 15 December 2014, all of the rights recognised for the tariff deficit up to 2013 have been transferred.

For financial years commencing 2014, Law 24/2013 of 26 December on the electricity sector establishes that any timing mismatches arising will be financed by all parties to the settlements system in proportion to the remuneration allocated to them, limited to a maximum annual amount of 2% of the estimated system revenue (or 5% in cumulative terms). If these limits are exceeded, access fees or charges will be reviewed by an equivalent amount. Within these limits, the mismatches will entitle the financing parties to recover those funds in the following five years, at an equivalent market interest rate.

Based on the definitive 2016 settlement, approved by the Spanish Markets and Competition Commission in November 2017, 2016 ended with a Euros 421 million surplus.

Additionally, Order ETU/1282/2017, of 22 December, establishing electricity access tariffs for 2018, establishes that under an order approved by the Ministry for Energy, Tourism and Digital Agenda, with the prior approval of the Government Commission for Economic Affairs, a maximum of Euros 200 million in 2017 and Euros 500 million for the total of 2017 and 2018, may be included as realisable income of the Electricity System.

The amounts recognised in application of this regulation at 31 December 2017 are described in Note 19.1.1.

Royal Decree 216/2014, of 28 March, establishing the methodology for calculating the Small Consumer Voluntary Price (SCVP) electricity tariff and the contracting system

On 29 March 2014, this Royal Decree was published, which establishes the methodology for calculating the Small Consumer Voluntary Price (SCVP) as of 1 April 2014. Key aspects of this Royal Decree are as follows:

- The cost of energy to be used in calculating the SCVP will be the energy price per hour in the daily and intraday market in the invoice period, plus adjustment services, capacity payments and System Operator and Market Operator financing payments.
- For consumers with remote meters integrated in the system, the hourly price will be applied to the actual hourly consumption; otherwise, the profile published by the System Operator will be used.
- This new mechanism will be applied as from 1 April 2014. Prior to 1 July 2014, the suppliers of reference must adapt their IT systems in order to invoice consumers under the new scheme. In the meantime, the cost of energy to be applied in the SCVP was the temporary price established for the first quarter of 2014. Subsequently, the cost was adjusted in invoices for consumption as of 1 April 2014, in the first billing period after suppliers' IT systems were duly adapted for the new SCVP.
- In addition, electricity consumed in the first quarter of 2014 must be adjusted in the first invoices issued following adaptation of the IT systems, as per Royal Decree Law 17/2013, of 27 December, taking into account the spread between the market price and the cost of purchasing energy included in the Small Consumer Voluntary Price (SCVP) in that period.
- The Royal Decree also establishes that, within two months of its publication, the Spanish Markets and Competition Commission will propose to the Secretary of State for Energy proposed procedures for verifying, validating and closing data taken from metering equipment connected to the remote system for the purposes of hourly measurements. These proposed procedures will include a maximum period for completing the remote measurement of all remote meters installed.
- As an alternative, the suppliers of reference will be required to extend an offer to customers entitled to the SCVP in the form of a fixed price for a one-year period, comprising the revisable access tariffs and a fixed value for one year (in €/kW) for the remaining items. The offer will remain in force for one month, and will be consistent throughout Spain. Each supplier of reference may have only one offer in force during the period.
- The Royal Decree also establishes that the subsidised electricity tariff will be equal to a 25% discount on the SCVP.

Hourly billing procedures for the Small Consumer Voluntary Price (SCVP) were published on 4 June 2015. 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 had until 1 October 2015 to adapt their IT systems.

On 25 November 2016 the Official State Gazette (BOE) published Royal Decree 469/2016 of 18 November establishing the methodology for calculating the trading margin on the Small Consumer Voluntary Price, 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 establishing the procedure for calculating Small Consumer Voluntary Prices for electricity and the legal framework for contracting power.

On 24 December 2016, Ministerial Order ETU/1948/2016 was published, which came into force on 1 January 2017, and establishes the commercial margin on the Small Consumer Voluntary Price. Through Ministerial Order ETU/258/2017, published on 25 March 2017 and with entry into force on 26 March 2017, a new value has been set for the part of said commercial margin corresponding to the contribution cost to the Energy Efficiency National Fund.

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.

Ministerial Order ETU/258/2017 of 24 March establishes ENDESA's contribution to the Energy Efficiency National Fund at Euros 29.3 million for 2017.

The Ministry of Energy, Tourism and Digital Agenda has started processing the proposed contribution for 2018. The amount proposed for ENDESA stands at Euros 28.5 million.

2017 electricity tariff

Ministerial Order ETU/1976/2016, of 23 December, was published in the Spanish Official State Gazette on 29 December 2016, establishing access charges for 2017.

Access tariffs remained unchanged in the Order.

2018 electricity tariff

Ministerial Order ETU/1282/2017, of 22 December, was published in the Spanish Official State Gazette on 27 December 2017, establishing access charges for 2018.

Access tariffs remained unchanged in the Order.

Gas system

On 22 May, 2015, Law 8/2015, of 21 May, on the hydrocarbons sector was published, which amends Law 34/1998 of 7 October, and establishes certain tax and non-tax measures in respect of the exploration, research and use of hydrocarbons, and modifies 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.

On 31 October 2015, Royal Decree 984/2015, of 30 October, was published, which regulates the organised gas market and third-party access to the installations of the natural gas system. This Royal Decree contains the basic regulations for the operation of this gas market, along with other measures, such as the inspection procedures for gas installations.

On 13 December 2017, following the resolution of the Council of Ministers dated 10 November 2017, a resolution establishing the terms and conditions governing the service made it mandatory for the dominant operators, which include ENDESA, to act as market makers.

Natural gas tariff for 2017

Under Order ETU/1977/2016 of 23 December, access tariffs in force in 2016 were largely maintained, having updated the Last Resort Tariffs (LRT) with an average 9% reduction, resulting from lower raw material costs.

Natural gas tariff for 2018

Under Order ETU/1283/2017 of 22 December, access tariffs in force in 2017 were largely maintained, having updated the Last Resort Tariffs with an average increase of 5% resulting from higher raw material costs.

5. Business Combinations

2017

5.1. Acquisition of the systems and telecommunications activity (ICT)

On 29 December 2016, ENDESA, S.A., acting through its fully owned subsidiary ENDESA Medios y Sistemas, S.L.U., formalised with ENEL Iberia, S.L.U. a contract for the acquisition from the latter of its systems and telecommunications activity (ICT) within the ENDESA sphere (see Note 35.1.2).

The operation entailed the transfer of materials, human resources and contracts with third parties involved in the implementation of these activities.

The effective date of the transaction was 1 January 2017 and it entailed a reorganisation of systems and telecommunications support activities to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying internal procedures and administrative management.

The net cash outflow relating to this transaction corresponds to the fair value of the consideration given, which amounted to Euros 246 million, and the costs related this transaction were less than Euros 1 million.

The price stipulated for purchasing this activity was Euros 246 million, which was paid on the date when the contract was formalised. The transaction was recognised through the acquisition method, with definitive allocation to the following items in the Consolidated Financial Statements:

Millions of Euros		
	Notes	Fair Value
Non-current assets		95
Property, plant & equipment	6	64
Intangible assets	8	30
Non-current financial assets	19.1	1
TOTAL ASSETS		95
Non-current liabilities		8
Non-current provisions	17.1 and 17.3	8
Current liabilities		2
Trade payables and other current liabilities		2
TOTAL LIABILITIES		10
Fair value of net assets acquired		85

The fair value of the acquired assets and assumed liabilities of the systems and telecommunications activity (ICT) was determined by discounting the free cash flows on the basis of the business plan and the trend of the systems and telecommunications sector.

The assumptions made in the valuation approach for the acquired assets and assumed liabilities of the systems and telecommunications activity (ICT) determine their classification in Level 3 of the fair value hierarchy, as explained in Note 3r.

The difference between the cost of the business combination and the fair value of the recognised assets and liabilities gave rise to goodwill of Euros 161 million (see Note 10) from the expected synergies to be obtained in the operation based on aspects such as the prospects of greater autonomy for ENDESA in the future management of systems and telecommunications activity (ICT), simplification and improvement of operations and management, and a reduction in costs.

The contribution of the systems and telecommunications activity (ICT) in 2017 was as follows:

Millions of Euros	
	2017
EBITDA	(30)
EBIT	(12)

5.2. Eléctrica de Jafre, S.A.

On 31 May 2017 ENDESA Red, S.A.U. acquired 52.54% of the share capital of Eléctrica de Jafre, S.A., whose activity entails electricity transmission and distribution, and the lease and reading of water and electricity meters. ENDESA Red, S.A.U. previously held 47.46% of this company (see Notes 2.3.1 and 11.1).

As a result of this transaction, ENDESA went from having significant influence to full control of Eléctrica de Jafre, S.A., thus reinforcing its distribution activity.

The net cash outflow arising from the acquisition of Eléctrica de Jafre, S.A. amounted to Euros 1 million, corresponding to the price agreed in the transaction (see Note 33.2).

The purchase price was finally booked, on the basis of the fair value of the assets acquired and the liabilities undertaken (net assets acquired) from Eléctrica de Jafre, S.A., under the following headings in the Consolidated Financial Statements:

Millions of Euros		
	Notes	Fair Value
Non-current assets		4
Property, plant & equipment	6	4
TOTAL ASSETS		4
Non-current liabilities		1
Deferred income	16	1
Current liabilities		1
Trade payables and other current liabilities		1
TOTAL LIABILITIES		2
Fair value of net assets acquired		2

When determining the fair value of the assets acquired and the liabilities assumed, the expected discounted cash flows were taken into consideration in line with the remuneration system in force at the acquisition date.

The assumptions made in the valuation approach for the acquired assets and assumed liabilities of Eléctrica de Jafre, S.A. determine their classification in Level 3 of the fair value hierarchy, as explained in Note 3r.

In 2017, ordinary income and profit after taxes generated by the company from the acquisition date of 31 May 2017 were insignificant. Additionally, had the acquisition taken place on 1 January 2017, ordinary income and profit after taxes generated from this transaction during 2017 would have amounted to less than Euros 1 million.

The net gain at the date control was obtained from the measure at fair value of the previously held non-controlling interest of 47.46% in Eléctrica de Jafre, S.A. was less than Euros 1 million (see Note 11.1).

5.3. Corporate transactions related to capacity awarded in renewable power auctions

As a result of the capacity auctions, which took place on 17 May 2017 and 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 540 MW of wind capacity and 339 MW of photovoltaic capacity, respectively (see Notes 4 and 6.1), the following corporate transactions were formalised:

- Formation, on 2 November 2017, of a new company called Explotaciones Eólicas Santo Domingo de Luna, S.A. (wind technology) with a percentage stake of 51%.
- Acquisition of the following companies:

	Acquisition date	Technology	Percentage stake at 31 December 2017
			Control
Seguidores Solares Planta 2, S.L.U.	23 November 2017	Photovoltaic	100.00
Baylio Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Dehesa de los Guadalupe Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Furatena Solar 1, S.L.U.	15 December 2017	Photovoltaic	100.00

The price agreed for all the aforementioned transactions totalled Euros 5 million, leading to a total net outflow of Euros 1 million (see Note 33.2).

ENDESA has recognised the acquisition of these companies as a business combination, and using the acquisition method, has definitively recognised the acquired assets and assumed liabilities (net acquired assets) of each one of these companies at fair value on its acquisition date under the following income statement headings:

Millions of Euros		
	Notes	Fair value
Non-current assets		6
Property, plant & equipment	6	6
TOTAL ASSETS		6
Non-current liabilities		1
Deferred tax liabilities	22.2	1
TOTAL LIABILITIES		1
Fair value of net assets acquired		5

Both the newly formed company and the acquired companies are currently applying for permits and licences to carry out their projects. Therefore, construction work has not yet started on the renewable energy facilities, and no revenue has been generated since the acquisition/formation date.

2016

5.4. Acquisition of ENEL Green Power España, S.L.U. (EGPE).

On 27 July 2016, ENDESA Generación S.A.U., a fully owned subsidiary of ENDESA S.A. (ENDESA), acquired ENEL Green Power International B.V, 60% of the share capital of ENEL Green Power España, S.L.U. (EGPE), a company in which it had previously held a 40% stake (see Notes 2.3.1, 2.4 and 11.1).

ENEL Green Power España, S.L.U. (EGPE) engages, directly or through companies it controls, in the production of electricity using renewable energy sources in Spain. It currently has approximately 91 wind power, hydroelectric and solar plants, with gross installed capacity of 1,675 MW at 31 December 2017 and output of 3,441 GWh in 2017.

On the date of execution of the purchase, ENDESA assumed control over ENEL Green Power España, S.L.U. (EGPE), boosting the significant influence it already had through its 40% holding.

ENDESA's objective with this acquisition was to reinforce its presence in the Iberian generation market by adding an attractive portfolio of renewable electricity production assets to its production mix.

Appendix IV to these Consolidated Financial Statements lists ENDESA's subsidiaries that formed part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

ENDESA recognised this transaction using the acquisition method as it is considered to be of economic substance and is a business according to the definition set down in IFRS 3 *Business Combinations* (see Note 2.7).

The purchase price for the 60% holding was Euros 1,207 million, and it was paid in full on 27 July 2016. To make the payment, ENDESA, S.A. issued Euro Commercial Paper (ECP) through International ENDESA, B.V., the renewals of which are backed by irrevocable lines of bank credit in the amount of Euros 1,200 million, and it completed the amount with an additional drawdown on these lines (see Note 18.2). ENDESA, S.A. used the habitual intercompany operation to finance ENDESA Generación, S.A.U.

The net cash outflow from the acquisition of 60% of ENEL Green Power España, S.L.U. (EGPE) was as follows (see Note 33.2):

Millions of Euros

	Notes	
Cash and cash equivalents of the acquiree		(31)
Net amount paid in cash ⁽¹⁾		1,209
TOTAL	33.2	1,178

(1) Includes purchase costs booked under "Other fixed operating expenses" in the consolidated income statement in the amount of Euros 2 million.

At 31 December 2017, one year after the date of acquisition of ENEL Green Power España, S.L.U. (EGPE), the business combination is accounted for definitively, having completed the measurement at fair value of the assets, liabilities and contingent liabilities in 2017, once the final conclusions on the valuation of certain indemnifying assets and contingents liabilities have been obtained (see Note 17.3).

In order to add ENEL Green Power España, S.L.U. (EGPE) to ENDESA's Consolidated Financial Statements, the purchase price was booked, on the basis of the fair value of the assets acquired and the liabilities assumed (net assets acquired) from ENEL Green Power España, S.L.U. (EGPE) at the purchase date under the following headings of the Consolidated Financial Statements:

Millions of Euros

	Notes	Provisional fair value	Valuation adjustments in the period ^(Notes 10, 17.3 and 19.1.1)	Definitive fair value
Non-current assets		2,328	(2)	2,326
Property, plant & equipment	6	1,248	-	1,248
Intangible assets	8	757	-	757
Investments accounted for using the equity method	11	34	-	34
Non-current financial assets	19.1	252	(2)	250
Deferred tax assets	22.1	37	-	37
Current assets		143	-	143
Inventories		29	-	29
Trade and other receivables		70	-	70
Current financial assets		13	-	13
Cash and cash equivalents		31	-	31
TOTAL ASSETS		2,471	(2)	2,469
NON-CONTROLLING INTERESTS	15.2	148	-	148
Non-current liabilities		445	(4)	441
Deferred income	16	9	-	9
Non-current provisions		55	(4)	51
Provisions for pensions and similar obligations		2	-	2
Other non-current provisions	17.3	53	(4)	49
Non-current interest-bearing loans and borrowings	18.1	141	-	141
Other non-current liabilities		9	-	9
Deferred tax liabilities	22.2	231	-	231
Current liabilities		164	-	164
Current interest-bearing loans and borrowings		86	-	86
Trade and other payables		78	-	78
TOTAL LIABILITIES		609	(4)	605
Fair value of net assets acquired ⁽¹⁾		1,714	2	1,716

(1) The main revalued assets belong to the Intangible assets category (see Note 8).

The difference between the cost of the business combination and the fair value of the assets and liabilities booked as indicated above, in due consideration of the fair value of the previous 40% stake in ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 805 million (see Note 11.1), led to the recognition of goodwill of Euros 296 million, which was not tax deductible (see Note 10).

The fair value of non-financial assets acquired was determined based on their increased and enhanced use, which is no different to their current use.

The measurement of the fair value of the assets acquired and the liabilities assumed from ENEL Green Power España, S.L.U. (EGPE) was obtained using an appraisal made by an independent expert, mainly on the basis of the "income perspective" whereby the fair value of the asset is established according to its capacity to generate income over the rest of its useful life. Fair value was established using tools to update the expected future free cash flows, setting a business value for each project, which, at the date that control was obtained, were in operating or construction phase.

The assumptions considered in the measurement approach for the assets acquired and the liabilities assumed from ENEL Green Power España, S.L.U. (EGPE) determine their classification in Level 3 of the fair value hierarchy, as set forth in Note 3r.

The goodwill was generated from the synergies deriving from the business combination based on factors such as the optimisation of ENDESA's daily and intra-daily market position resulting from the combining of the renewable asset offers, with the rest of ENDESA's generation portfolio, a reduction in management costs associated with the dispatch, auction and control centre, lower re-routing costs at ENEL Green Power España, S.L.U. (EGPE) and increased coverage of Group supply activity with the subsequent reduction of the risk associated with a decline in the short position.

The contribution by ENEL Green Power España, S.L.U. (EGPE) to net profit in 2016 was Euros 38 million, broken down as follows:

Millions of Euros	
	2016
Revenue	118
Contribution margin	104
EBITDA ⁽¹⁾	75
EBIT ⁽²⁾	16
Net financial gain/(loss)	1
Net profit/(loss) of companies accounted for using the equity method	(65) ⁽³⁾
Income tax expense	87 ⁽⁴⁾
Non-controlling interests	(1) ⁽¹⁾
TOTAL	38

(1) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

(3) Includes mainly net profit/loss relating to the 40% stake previously-held by ENDESA, S.A. through ENDESA Generación, S.A.U. until the date that control was obtained (Euros 7 million), impairment recognised prior to the date that control was obtained, bearing in mind that the recoverable value of the 40% stake in ENEL Green Power España, S.L.U. (EGPE) was lower than its carrying amount (Euros 72 million), and net profit at the takeover date, as a result of the fair value measurement of the non-controlling 40% stake in ENEL Green Power España, S.L.U. (EGPE) (Euros -4 million) (see Note 11.1).

(4) Following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition (see Notes 22.2 and 32).

Had control been acquired at 1 January 2016, revenue and profit after tax generated by this transaction in 2016 would have been Euros 289 million and Euros 51 million, respectively, of which Euros 3 million would have corresponded to non-controlling interests.

5.5. Acquisition of Eléctrica del Ebro, S.A.U.

On 28 July 2016, ENDESA purchased all the shares of Eléctrica del Ebro, S.A.U. for Euros 21 million (see Notes 2.3.1, 2.4 and 10).

Eléctrica del Ebro, S.A.U. engages in the distribution and supply of electricity in the province of Tarragona, which has approximately 20,000 customers in the area ranging from Hospitalet-Vandellós and Delta del Ebro and Amposta. Through this acquisition, ENDESA reinforces its distribution business.

The net cash outflow from the acquisition of Eléctrica del Ebro, S.A.U. was calculated as follows:

Millions of Euros

	Notes	
Cash and cash equivalents of the acquiree		(1)
Net amount paid in cash ⁽¹⁾		19
TOTAL	33.2	18

(1) The total transaction price was Euros 21 million, of which Euros 2 million are still payable, subordinated to compliance with certain contractual stipulations. The acquisition costs recognised under "Other fixed operating expenses" in the consolidated income statement were less than Euros 1 million.

The transaction was recognised using the acquisition method, which resulted in the recognition of the following identified acquired assets and assumed liabilities on the Consolidated Financial Statements:

Millions of Euros	Notes	Fair Value
Non-current assets		27
Property, plant & equipment	6	26
Deferred tax assets	22.1	1
Current assets		6
Trade and other receivables		3
Current financial assets		1
Cash and cash equivalents		2
TOTAL ASSETS		33
Non-current liabilities		8
Deferred income	16	3
Deferred tax liabilities	22.2	5
Current liabilities		6
Current provisions		2
Trade and other payables		4
TOTAL LIABILITIES		14
Fair value of net assets acquired ⁽¹⁾		19

(1) The main revalued assets belong to the Property, plant and equipment category (see Note 6).

The difference between the cost of the business combination and the fair value of the acquired assets and assumed liabilities generated goodwill of Euros 2 million, which is not tax deductible (see Note 10). This goodwill was generated by the synergies arising from improvements in the nature of the fixed costs inherent to the integration.

When determining the fair value of the assets acquired and the liabilities assumed, the expected discounted cash flows were taken into consideration in line with the remuneration system in force at the acquisition date, established in Royal Decree 1048/2013, of 27 December, and in Order IET 2660/2015, of 11 November.

The assumptions considered in the valuation approach of the assets acquired and assumed liabilities of Eléctrica del Ebro, S.A.U. determine their classification in Level 3 of the fair value hierarchy described in Note 3s.

Profit after taxes generated in the period from the acquisition date until 31 December 2016 amounted to Euros 1 million. Had the acquisition occurred at 1 January 2016, revenue and profit after tax generated by this transaction in 2016 would have amounted to Euros 10 million and Euros 2 million, respectively.

6. Property, plant and equipment

At 31 December 2017 and 2016, the composition and movements of this item of the accompanying consolidated statement of financial position are as follows:

Millions of Euros

Property, plant and equipment in use and under construction	31 December 2017			Total property, plant and equipment
	Cost	Accumulated depreciation	Impairment losses	
Land and buildings	696	(295)	(15)	386
Electricity generating facilities:	26,109	(17,144)	-	8,965
Hydroelectric power plants	3,309	(2,476)	-	833
Coal-fired/fuel-oil power plants	8,047	(6,255)	-	1,792
Nuclear power plants	9,923	(7,045)	-	2,878
Combined cycle plants	3,763	(1,302)	-	2,461
Renewable energy plants	1,067	(66)	-	1,001
Transmission and distribution facilities	20,848	(9,526)	-	11,322
Low- and medium-voltage, measuring and remote control equipment and other installations	20,848	(9,526)	-	11,322
Other property, plant and equipment	578	(349)	(86)	143
Property, plant and equipment under construction	978	-	(67)	911
TOTAL	49,209	(27,314)	(168)	21,727

Millions of Euros

Property, plant and equipment in use and under construction	31 December 2016			Total property, plant and equipment
	Cost	Accumulated depreciation	Impairment losses	
Land and buildings	766	(296)	(53)	417
Electricity generating facilities:	26,016	(16,662)	(10)	9,344
Hydroelectric power plants	3,291	(2,468)	(10)	813
Coal-fired/fuel-oil power plants	7,962	(6,061)	-	1,901
Nuclear power plants	9,934	(6,895)	-	3,039
Combined cycle plants	3,765	(1,209)	-	2,556
Renewable energy plants	1,064	(29)	-	1,035
Transmission and distribution facilities	20,409	(9,084)	-	11,325
Low- and medium-voltage, measuring and remote control equipment and other installations	20,409	(9,084)	-	11,325
Other property, plant and equipment	616	(389)	(101)	126
Property, plant and equipment under construction	744	-	(65)	679
TOTAL	48,551	(26,431)	(229)	21,891

Millions of Euros

Property, plant and equipment in use and under construction	Balance at 31 December 2016	Inclusion / exclusion of companies (Note 5) (1)	Investments (Note 6.1)	Disposals	Transfers and other (2)	Balance at 31 December 2017
Land and buildings	766	-	-	(31)	(39)	696
Electricity generating facilities:	26,016	-	5	(27)	115	26,109
Hydroelectric power plants	3,291	-	-	(2)	20	3,309
Coal-fired/fuel-oil power plants	7,962	-	1	(5)	89	8,047
Nuclear power plants	9,934	-	-	(13)	2	9,923
Combined cycle plants	3,765	-	1	-	(3)	3,763
Renewable energy plants	1,064	-	3	(7)	7	1,067
Transmission and distribution facilities	20,409	30	4	(167)	572	20,848
Low- and medium-voltage, measuring and remote control equipment and other installations	20,409	30	4	(167)	572	20,848
Other property, plant and equipment	616	(2)	4	(34)	(6)	578
Property, plant and equipment under construction	744	29	965	(2)	(758)	978
TOTAL	48,551	57	978	(261)	(116)	49,209

(1) Corresponds to the acquisition of the systems and telecommunications activity (ICT) (Euros 64 million) (see Note 5.1), Eléctrica de Jafre, S.A. (Euros 4 million) (see Note 5.2), the new companies relating to capacity awarded (Euros 6 million) (see Note 5.3) and the disposals of Nueva Marina Real Estate, S.L. (Euros 7 million) (see Note 2.3.1) and certain Joint Operation Companies (Euros 10 million) (see Note 2.5.1).

(2) Includes the application to property, plant and equipment of changes to the estimated costs of dismantling the facilities (see Note 17.3).

Millions of Euros

Amortisation and impairment losses	Balance at 31 December 2016	Inclusion / exclusion of companies (1)	Charges (2)	Disposals	Transfers and other	Balance at 31 December 2017
Electricity generating facilities:	(349)	-	(16)	27	28	(310)
Hydroelectric power plants	(16,672)	-	(585)	27	86	(17,144)
Coal-fired/fuel-oil power plants	(2,478)	-	(30)	2	30	(2,476)
Nuclear power plants	(6,061)	-	(247)	5	48	(6,255)
Combined cycle plants	(6,895)	-	(163)	13	-	(7,045)
Renewable energy plants	(1,209)	-	(93)	-	-	(1,302)
Transmission and distribution facilities	(29)	-	(52)	7	8	(66)
Low- and medium-voltage, measuring and remote control equipment and other installations	(9,084)	3	(571)	165	(39)	(9,526)
Other property, plant and equipment	(9,084)	3	(571)	165	(39)	(9,526)
Property, plant and equipment under construction	(555)	3	(15)	34	31	(502)
TOTAL	(26,660)	6	(1,187)	253	106	(27,482)

(1) Corresponds to the disposals of Nueva Marina Real Estate, S.L. (Euros 3 million) (see Note 2.3.1) and certain Joint Operation Companies (Euros 3 million) (see Note 2.5.1).

(2) Includes the net reversal of impairment losses (Euros 13 million) and the depreciation and amortisation charge (Euros 1,200 million) (see Note 29).

Millions of Euros

Property, plant and equipment in use and under construction	Balance at 31 December 2015	Inclusion / exclusion of companies (Note 5) (1)	Investments (Note 6.1)	Disposals	Transfers and other (2)	Transfers to non-current assets held for sale (3)	Balance at 31 December 2016
Electricity generating facilities:	663	142	-	(67)	29	(1)	766
Hydroelectric power plants	24,444	1,061	55	(74)	531	(1)	26,016
Coal-fired/fuel-oil power plants	3,242	14	-	(6)	41	-	3,291
Nuclear power plants	7,853	-	22	(38)	125	-	7,962
Combined cycle plants	9,573	-	24	(21)	358	-	9,934
Renewable energy plants	3,759	-	2	(1)	5	-	3,765
Transmission and distribution facilities	17	1,047	7	(8)	2	(1)	1,064
Low- and medium-voltage, measuring and remote control equipment and other installations	19,936	33	3	(153)	591	(1)	20,409
Other property, plant and equipment	19,936	33	3	(153)	591	(1)	20,409
Property, plant and equipment under construction	644	3	8	(52)	13	-	616
Electricity generating facilities:	901	35	919	-	(1,102)	(9)	744
TOTAL	46,588	1,274	985	(346)	62	(12)	48,551

(1) It corresponds to the acquisition of ENEL Green Power España, S.L.U. (EGPE) (Euros 1,248 million) (see Note 5.4) and Eléctrica del Ebro, S.A.U. (Euros 26 million) (see Note 5.5).

(2) Includes the application to property, plant and equipment of changes to the estimated costs of dismantling the facilities (see Note 17.3).

(3) In 2016, the property, plant and equipment of Energías de la Mancha Eneman, S.A. and Energía de La Loma, S.A. was transferred to the "Non-current assets held for sale" heading. (see Note 2.3.1).

Millions of Euros

Amortisation and impairment losses	Balance at 31 December 2015	Inclusion / exclusion of Companies	Charges (1)	Disposals	Transfers and other	Transfers to non-current assets held for sale	Balance at 31 December 2016
Electricity generating facilities:	(399)	-	(16)	66	-	-	(349)
Hydroelectric power plants	(16,166)	-	(575)	71	(2)	-	(16,672)
Coal-fired/fuel-oil power plants	(2,413)	-	(69)	6	(2)	-	(2,478)
Nuclear power plants	(5,867)	-	(228)	37	(3)	-	(6,061)
Combined cycle plants	(6,761)	-	(155)	21	-	-	(6,895)
Renewable energy plants	(1,119)	-	(94)	1	3	-	(1,209)
Transmission and distribution facilities	(6)	-	(29)	6	-	-	(29)
Low- and medium-voltage, measuring and remote control equipment and other installations	(8,655)	-	(584)	151	4	-	(9,084)
Other property, plant and equipment	(8,655)	-	(584)	151	4	-	(9,084)
Property, plant and equipment under construction	(553)	-	(55)	53	-	-	(555)
TOTAL	(25,773)	-	(1,230)	341	2	-	(26,660)

(1) Includes impairment losses (Euros 22 million) and the depreciation and amortisation charge (Euros 1,208 million) (see Note 29).

At 31 December 2017 and 2016, property, plant and equipment include the following co-owned assets:

Millions of Euros		Co-owned assets	
	% ownership	31 December 2017	31 December 2016
Central Nuclear Vandellós II, C.B.	72%	865	875
Central Nuclear Ascó II, C.B.	85%	692	682
Central Nuclear de Almaraz, C.B.	36%	383	378
Central Térmica de Anllares, C.B.	33%	-	9
Salto del Navia, C.B.	50%	14	14

6.1. Additional information on property, plant and equipment

Main investments

Details of investment in property, plant and equipment in 2017 and 2016 are as follows:

Millions of Euros		Property, plant and equipment	
		2017 ⁽¹⁾	2016 ^{(1) (2)}
Generation and supply		358	388
Distribution		610	595
Others		10	2
TOTAL		978	985

(1) Does not include business combinations in the period (see Note 5).

(2) Includes investments made in ENEL Green Power España, S.L.U. (EGPE) since the takeover date in the amount of Euros 12 million (see Note 5.4).

Gross investments in generation in 2017 related largely related to plants that were already operating at 31 December 2016, as well as investments in the Litoral coal plant in the amount of Euros 39 million (2016: Euros 83 million) and the As Pontes coal plant in the amount of Euros 34 million in connection with the Industrial Emissions Directive, which extended their useful lives. It also includes investment in upgrading major components of renewable technology assets.

At 31 December 2017 ENDESA made investments for the amount of Euros 7 million in relation to the construction of awarded power capacity (540 MW wind and 339 MW photovoltaic capacity in the auctions carried out by the Ministry of Energy, Tourism and Digital Agenda on 17 May 2017 and 26 July 2017) (see Note 4).

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

Gross investments in distribution relate to network extensions and expenditure aimed at optimising the network for greater efficiency and quality of service. It also included investment for the widespread installation of remote management smart meters and their operating systems.

Environment

ENDESA's investment in environmental protection activities totalled Euros 110 million in 2017 (Euros 108 million in 2016), with accumulated investment at the 2017 year end of Euros 1,635 million (Euros 1,525 million at the 2016 year end).

Environmental expenses amounted to Euros 100 million in 2017 (Euros 80 million in 2016). Of this total expenditure, Euros 45 million corresponded to the provision for depreciation of the abovementioned investments (Euros 25 million in 2016).

Impairment test

In 2017, a net reversal was recognised for the amount of Euros 13 million (see Note 29), corresponding to:

- Generation assets: provision for impairment of renewables projects underway that will not be developed, amounting to Euros 1 million (see Note 34.2).

- Distribution assets: reversal of a provision for impairment on land, amounting to Euros 14 million, arising from appraisals performed by third parties (see Note 34.2).

At 31 December 2017, the recoverable value of these assets is the following:

Millions of Euros	
	31 December 2017
Generation assets	-
Land	48
TOTAL	48

In 2016, the net provision set aside for impairment amounted to Euros 22 million (see Note 29), mainly corresponding to:

- Generation assets: reversion of Euros 7 million of assets of Unión Eléctrica de Canarias Generación, S.A.U. that are going to continue in operation, and for which the corresponding decommissioning provision, amounting to Euros 5 million, was recognised, constituting the full value of the property, plant and equipment tied to these assets (see Note 34.2).
- Distribution assets: a provision for impairment on land, amounting to Euros 29 million, arising from appraisals performed by third parties (see Note 34.2).

The recoverable value of these assets at 31 December 2016 was as follows:

Millions of Euros	
	31 December 2016
Generation assets	5
Land	34
TOTAL	39

Commitments to purchase property, plant and equipment

At 31 December 2017 and 2016, the breakdown of commitments to purchase property, plant and equipment is as follows:

Millions of Euros		
	31 December 2017 ⁽¹⁾	31 December 2016 ⁽²⁾
Generation and supply	250	147
Distribution	114	190
Others	-	1
TOTAL	364	338

(1) Include Euros 53 million relating to commitments with Group companies (see Note 35.1.2).

(2) Include Euros 115 million relating to commitments with Group companies (see Note 35.1.2).

Commitments in generation correspond mainly to investments for the production base and to be made from 2018.

ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded a 540 MW wind power contract and a 339 photovoltaic power contract in the auctions conducted by the Ministry of Energy, Tourism and Digital Agenda on 17 May 2017 and 26 July 2017, respectively (see Notes 4 and 5.3). On this basis, ENDESA intends to invest approximately Euros 870 million to build the awarded wind power capacity, of which Euro 7 million had already been realised as of 31 December 2017 and Euros 1 million are committed at the same date.

The commitments in distribution comprises investments to extend or update the grid and install smart meters, which are scheduled up to 2018.

At 31 December 2017 and 2016, there were no commitments to purchase property, plant and equipment from Joint Ventures.

Geographical areas

At 31 December 2017 and 2016, the detail of property, plant and equipment in the main geographical areas where ENDESA operates is as follows:

Millions of Euros

	31 December 2017	31 December 2016
Spain	21,320	21,461
Portugal	407	430
TOTAL	21,727	21,891

Insurance

ENDESA and its subsidiaries have taken out insurance policies to cover the risk of damage to their property, plant and equipment and any claims that could be filed against them in their business activities. The company considers the coverage of these policies to be sufficient. The possible loss of profits that could result from outages at the plants is also covered by certain assets. In 2017, pay-outs from insurance companies in relation to property damage arising from accidents amounted to Euros 2 million (Euros 3 million in 2016).

Under current legislation in Spain and pursuant to Law 24/2013 of 26 December on the electricity sector, ENDESA is insured for up to Euros 700 million against third-party liability claims for possible nuclear accidents at its plants. Any loss or damage in excess of this amount would be governed by the international conventions entered into by the Spanish state. The nuclear power plants are also insured against damage to their installations (including stocks of nuclear fuel) and machinery breakdowns, with maximum coverage of \$1,500 million (approximately Euros 1,250 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May, on civil liability for nuclear damages or damages produced by radioactive materials which raises operator liability to Euros 1,200 million, while also allowing operators to cover this liability in several ways. The entry into force of this regulation is, in turn, subject to the entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention), which was only pending ratification by certain European Union member States at the date on which these Consolidated Financial Statements were drawn up.

Other information

Fully depreciated property, plant and equipment still in use had a cost of Euros 359 million at 31 December 2017.

At 31 December 2017, property, plant and equipment amounting to Euros 159 million (Euros 178 million at 31 December 2016) had been pledged to secure financing received from third parties (see Notes 15.1.12, 18.2.3 and 36.1).

7. Investment property

At 31 December 2017 and 2016 the composition and movements of this item of the accompanying consolidated statement of financial position were as follows:

Millions of Euros

	Balance at 31 December 2016	Inclusion/(exclusion) of companies ⁽¹⁾	Investments	Transfers of properties	Disposals due to sale	Others	Transfers to non-current assets held for sale	Balance at 31 December 2017
Investment property in Spain and Portugal	20	(11)	-	-	-	-	-	9
TOTAL	20	(11)	-	-	-	-	-	9

(1) Relates to the deconsolidation of Nueva Marina Real Estate, S.L. (Note 2.3.1)

Millions of Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies	Investments	Transfers of properties	Disposals due to sale	Other	Transfers to non-current assets held for sale	Balance at 31 December 2016
Investment property in Spain and Portugal	21	-	-	-	-	(1)	-	20
TOTAL	21	-	-	-	-	(1)	-	20

7.1. Additional information on investment property (real estate)

Geographical areas

At 31 December 2017 and 2016, all of ENDESA's investment property are located in Spain and Portugal.

Insurance

ENDESA has taken out insurance policies to cover the risk of damage to its investment property and any claims that could be filed against it in its business activities. The Group considers that coverage provided by these policies is sufficient.

Other information

The market value of the investment properties at 31 December 2017 was Euros 16 million (Euros 59 million at 31 December 2016) (see Notes 3b and 19.6.2).

At 31 December 2017, none of the investment properties were fully depreciated and there were no restrictions for their realization.

Direct expenses recognised in the 2017 and 2016, consolidated income statements for investment property were not material.

At 31 December 2017 and 2016, ENDESA held no contractual obligations to purchase, build or develop any investment property, or any obligations concerning repairs, maintenance or improvements.

8. Intangible assets

At 31 December 2017 and 2016, the composition and movements of this item of the accompanying consolidated statement of financial position were as follows:

Millions of Euros

	31 December 2017			
	Cost	Accumulated depreciation	Impairment losses	Net amount
Software	1,425	(965)	-	460
Concessions	105	(24)	(52)	29
Others	837	(130)	-	707
TOTAL	2,367	(1,119)	(52)	1,196

Millions of Euros

	31 December 2016			
	Cost	Accumulated depreciation	Impairment losses	Net amount
Software	1,271	(862)	-	409
Concessions	105	(23)	(60)	22
Others	824	(83)	-	741
TOTAL	2,200	(968)	(60)	1,172

Millions of Euros

	Balance at 31 December 2016	Inclusion/(exclusion) of companies ⁽¹⁾	Investments (Note 8.1)	Depreciation, amortisation, and impairment losses ⁽²⁾	Transfers and other	Transfers to non-current assets held for sale	Balance at 31 December 2017
Software	409	29	123	(101)	-	-	460
Concessions	22	-	-	7	-	-	29
Others	741	-	10	(48)	4	-	707
TOTAL	1,172	29	133	(142)	4	-	1,196

(1) It corresponds to the acquisition of the systems and telecommunications activity (ICT) (Euros 30 million) (see Note 5.1) and the divestments of certain Joint Operation Companies (Euros 1 million) (see Note 2.5.1).

(2) Includes the reversal of impairment losses (Euros 8 million) and the amortization provision for the year 2017 (Euros 150 million eu) (see Note 29).

Millions of Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Note 5.4)	Investments (Note 8.1)	Depreciation, amortisation, and impairment losses ⁽¹⁾	Transfers and other	Transfers to non-current assets held for sale ⁽²⁾	Balance at 31 December 2016
Software	360	8	141	(100)	-	-	409
Concessions	14	4	-	(1)	5	-	22
Others	54	745	2	(32)	(5)	(23)	741
TOTAL	428	757	143	(133)	-	(23)	1,172

(1) Includes the reversal of impairment losses (Euros 5 million) and the amortization provision (Euros 138 million) (see Note 29).

(2) During the year 2016, the Intangible Assets of Energías de la Mancha Eneman, S.A. and Energía de La Loma, S.A. were transferred to the heading of "Non-Current Assets Held for Sale" (see Note 2.3.1).

8.1. Additional information on intangible assets

Inclusion/(exclusion) of companies.

In 2017, following the acquisition of ENEL Iberia, S.L.U.'s systems and telecommunications activity (ICT), an increase of Euros 30 million was recognised under "Software" (see Note 5.1).

In 2016, "Other" mainly included the assets relating to the takeover of ENEL Green Power España, S.L.U. (EGPE) and the allocation of the purchase price to the intangible asset corresponding, mainly, to authorisations for the operation of wind farms (see Note 5.4).

Main investments

Details of investments in intangible assets in 2017 and 2016 are as follows:

Millions of Euros

Intangible assets	2017 ⁽¹⁾	2016 ^{(1) (2)}
Generation and supply	48	57
Distribution	47	55
Others	38	31
TOTAL	133	143

(1) Does not include business combinations in the period (see Note 5).

(2) Includes investments made in ENEL Green Power España, S.L.U. (EGPE) since the takeover date in the amount of Euros 2 million (see Note 5.4).

Investments made in 2017 and 2016 correspond mainly to software and ongoing investments of the systems and telecommunications activity (ICT), which include the modifications of the ERP system to the new Evolution for Energy (E4E) SAP system.

Impairment test

During 2017, an impairment loss reversal amounting to Euros 8 million was recognised (see Notes 29 and 34.2), which mainly corresponded to the provision set aside during prior years for the Distribuidora Eléctrica del Puerto de la Cruz, S.A.U. concession, arising from an increase in forecasted cash flows (Euros 5 million in 2016). The recoverable amount of this concession at 31 December 2017 is Euros 30 million (Euros 23 million at 31 December 2016).

Commitments to purchase intangible assets

At 31 December 2017 and 2016, the breakdown of commitments to purchase intangible assets, mainly software, is as follows:

Millions of Euros			
	31 December 2017 ⁽¹⁾		31 December 2016 ⁽¹⁾
Generation and supply		4	1
Distribution		-	1
Others		3	-
TOTAL		7	2

(1) None of these amounts have been committed with Group companies nor correspond to joint ventures.

Geographical areas

At 31 December 2017 and 2016, the detail of intangible assets in the main geographical areas where ENDESA operates is as follows:

Millions of Euros			
	31 December 2017		31 December 2016
Spain		1,196	1,172
Portugal		-	-
TOTAL		1,196	1,172

Other information

Fully amortised intangible assets still in use amounted to Euros 71 million at 31 December 2017.

9. Leases

9.1. Finance leases

Lessee

At 31 December 2017, the most significant finance leases signed by ENDESA are as follows:

- ENDESA Generación, S.A.U. has signed a tolling agreement with Elecgas, S.A. (a company in which ENDESA Generación, S.A.U. holds a 50% interest), for 25 years (18 remaining), whereby Elecgas, S.A. makes the entire production capacity of its plant available to ENDESA Generación, S.A.U. and undertakes to transform the gas supplied into electricity in exchange for a financial charge.
- ENDESA Distribución Eléctrica, S.L.U. has entered into finance lease arrangements for office buildings located mostly in Barcelona, Lérida and Zaragoza, with a remaining duration of around 10 years.
- The rest of contracts of these characteristics correspond, mainly, to finance leases operations of vehicles.

At 31 December 2017 and 2016, property, plant and equipment included Euros 437 million and Euros 466 million, respectively, reflecting the carrying amount of assets held under financial leasing (see Note 18.1).

At 31 December 2017 and 2016, future payments derived from said contracts and their current value are as follows:

Millions of Euros

Term	Future payments envisaged		Present value of future payments envisaged	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Up to one year	50	51	23	23
Between one year and five years	187	191	90	89
More than five years	505	551	362	385
Total	742	793	475	497
Interest	(267)	(296)	N/A	N/A
Present value of future payments envisaged	475	497	N/A	N/A

In general, the amount of leases with purchase options coincides with the amount of the last instalment.

Lessor

At 31 December 2017 and 2016, ENDESA had entered into no finance lease agreements in which it acts as lessor.

9.2. Operating leases

Lessee

At 31 December 2017, the most significant operating leases signed by ENDESA in which it acts as lessor are as follows:

- The building housing its headquarters, which runs until 2023.
- Other buildings where offices are located, with expiries of between 1 and 11 years.
- Lease agreement corresponding to the right of use of land on which some of the generation facilities of ENEL Green Power España, S.L.U. (EGPE) are located. These are long term agreements, with automatic renewal clauses and expiry dates between 2018 and 2067. The prices in these agreements are calculated in accordance with the installed capacity (MW) and their generation (GWh).
- Agreements for technical equipment to cover one-off services according to operational requirements and for periods of less than 12 months.
- Various transport lease contracts.
- Service concession arrangements with various port authorities for the occupation of public land where electricity generation facilities are located, expiring between 2018 and 2067.

The 2017 consolidated income statement includes Euros 35 million (Euros 34 million in 2016) corresponding payments accrued on the tangible assets in use under operating leases described above, of which Euros 1 million correspond to variable payments for wind farm production (Euros 1 million in 2016) (see Note 28).

Future lease payments on these agreements at 31 December 2017 and 2016 are as follows:

Millions of Euros

Term	31 December 2017	31 December 2016 ⁽¹⁾
Up to one year	28	29
Between one year and five years	106	105
More than five years	103	143
TOTAL	237	277

Lessor

At 31 December 2017, the most significant operating leases in which ENDESA acts as lessor are as follows:

- ENDESA Energía, S.A.U. has arranged operating lease agreements with third parties for certain intangible assets for the supply of value-added goods and services (PSVAs).
- ENDESA Ingeniería, S.L.U. has arranged licensing contracts with telecoms operators for the use of fibre optic cables in certain electricity distribution lines.

At 31 December 2017 and 2016, the future payments derived from said contracts are as follows:

Millions of Euros

	31 December 2017	31 December 2016
Within one year	3	5
Between one year and five years	14	16
More than five years	5	3
TOTAL	22	24

Rental income recognised in 2017 totalled Euros 11 million (Euros 7 million in 2016) (see Note 25.2).

10. Goodwill

At 31 December 2017 and 2016, the composition and movements of this item of the accompanying consolidated statement of financial position are as follows:

Millions of Euros

	Balance at 31 December 2016 ⁽⁴⁾	Business combinations ^(Note 5)	Disposals	Impairment losses	Transfers and other	Balance at 31 December 2017
ENEL Green Power España, S.L.U. (EGPE) ⁽¹⁾	296	-	-	-	-	296
Eléctrica del Ebro, S.A.U. ⁽²⁾	2	-	-	-	-	2
Systems and telecommunications activity (ICT) ⁽³⁾	-	161	-	-	-	161
TOTAL	298	161	-	-	-	459

(1) Assigned to the Generation Cash-Generating Unit (CGU) (see Notes 5.4 and 34.2).

(2) Assigned to the Distribution Cash-Generating Unit (CGU) (see Notes 5.5 and 34.2).

(3) Assigned to the Generation Cash-Generating Unit (CGU) (Euros 83 million), the Distribution CGU (Euros 74 million) and ENDESA, S.A. (Euros 4 million) (see Notes 5.1 and 34.2).

(4) See Note 5.4.

Millions of Euros

	Balance at 31 December 2015	Business combinations ^(Note 5)	Disposals	Impairment losses	Transfers and other	Balance at 31 December 2016 ⁽³⁾
ENEL Green Power España, S.L.U. (EGPE) ⁽¹⁾	-	296	-	-	-	296
Eléctrica del Ebro, S.A.U. ⁽²⁾	-	2	-	-	-	2
TOTAL	-	298	-	-	-	298

(1) Assigned to the Generation Cash-Generating Unit (CGU) (see Notes 5.4 and 34.2).

(2) Assigned to the Distribution Cash-Generating Unit (CGU) (see Notes 5.5 and 34.2).

(3) See Note 5.4.

Total goodwill relates to the geographical area of Spain.

The acquisition of the systems and telecommunications activity (ICT) concerning the area of ENDESA held by ENEL Iberia, S.L.U. became effective on 1 January 2017. This transaction created Euros 161 million in goodwill (refer to Note 5.1).

In 2016, ENDESA acquired 60% of the holding in ENEL Green Power España, S.L.U. (EGPE), which led to the takeover of this company. The difference between the cost of the business combination and the fair value of the assets and liabilities booked as indicated above, in due consideration of the fair value of the previous 40% stake in ENEL Green Power España, S.L.U. (EGPE) (see Note 11.1), generated goodwill of Euros 296 million on completion of the 12 month purchase price allocation period (see Note 5.4). At 31 December 2016 provisional goodwill stood at Euros 298 million.

In 2016, 100% of the holding in Eléctrica del Ebro, S.A.U. was also acquired. The difference between the cost of the business combination and the fair value of these assets and liabilities generated goodwill of Euros 2 million (see Note 5.5).

At 31 December 2017, ENDESA assessed the recoverability of this goodwill, for which it performed an impairment test on the Cash-Generating Units (CGUs) to which these assets were assigned. The basic methodology and assumptions considered to perform these impairment tests are indicated in 3e.2.

11. Investments accounted for using the equity method and joint operation entities

11.1. Investments accounted for using the equity method

Details of this heading in the accompanying consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros	31 December 2017	31 December 2016
Associates	77	77
Joint ventures	128	131
TOTAL	205	208

The full list of investees over which ENDESA has significant influence is provided in Appendix II of these Consolidated Financial Statements. These companies do not have publicly listed share prices.

At 31 December 2017 and 2016 there were no significant restrictions imposed on the capacity of associates or joint ventures to transfer funds to ENDESA in the form of cash dividends, or repay loans or advances made by ENDESA (see Notes 15.1.2).

ENDESA did not have any significant contingent liabilities related to associates or joint ventures at 31 December 2017 and 2016.

Loans and guarantees granted to associates and joint ventures at 31 December 2017 and 2016, as well as related transactions therewith in 2017 and 2016 are detailed in Notes 19.1.1 and 35.2.

At 31 December 2017 and 2016, the detail and movements of this item of the accompanying consolidated statement of financial position were as follows:

Millions of Euros

	Balance at 31 December 2016	Inclusion/(exclusion) of companies	Investments or Increases	Disposals or Reductions	Share of profit/(Loss) of equity-accounted investees	Dividends	Translation differences	Transfers and other	Transfers to non- current assets held for sale	Balance at 31 December 2017
Associates	77	-	-	-	4	(6)	-	2	-	77
Tecnatom, S.A.	34	-	-	-	(4)	-	-	-	-	30
Elcogas, S.A.	-	-	-	-	-	-	-	-	-	-
Gorona del Viento El Hierro, S.A.	8	-	-	-	3	-	-	-	-	11
Boiro Energía, S.A.	9	-	-	-	2	(2)	-	-	-	9
Compañía Eólica Tierras Altas, S.A.	13	-	-	-	1	(2)	-	-	-	12
Other	13	-	-	-	2	(2)	-	2	-	15
Joint ventures	131	-	38	-	(19)	(25)	(1)	4	-	128
Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.	70	-	-	-	10	(8)	-	1	-	73
Nuclenor, S.A.	-	-	38	-	(48)	-	-	10	-	-
Énergie Électrique de Tahhadart, S.A.	31	-	-	-	7	(6)	(1)	(1)	-	30
Suministradora Eléctrica de Cádiz, S.A.	18	-	-	-	1	(6)	-	-	-	13
Other	12	-	-	-	11	(5)	-	(6)	-	12
TOTAL	208	-	38	-	(15)	(31)	(1)	6	-	205

Millions of Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Notes 2.3, 2.4, 2.5 and 5)	Investments or Increases	Disposals or reductions	Share of profit/(Loss) of equity-accounted investees	Dividends	Translation differences	Transfers and other	Transfers to non- current assets held for sale	Balance at 31 December 2016
Associates	903	(771)	-	-	(57)	(2)	-	4	-	77
ENEL Green Power España, S.L.U. (EGPE)	870	(805)	-	-	(69) ⁽¹⁾	-	-	4	-	-
Tecnatom, S.A.	33	-	-	-	1	-	-	-	-	34
Elcogas, S.A.	-	-	-	-	-	-	-	-	-	-
Gorona del Viento El Hierro, S.A.	-	-	-	-	8	-	-	-	-	8
Boiro Energía, S.A.	-	8	-	-	1	-	-	-	-	9
Compañía Eólica Tierras Altas, S.A.	-	14	-	-	-	(1)	-	-	-	13
Other	-	12	-	-	2	(1)	-	-	-	13
Joint ventures	184	7	25	-	(2)	(20)	-	10	(73)	131
ENEL Insurance, N.V.	63	-	-	-	6 ⁽²⁾	-	-	4	(73)	-
Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.	62	7	-	-	10	(9)	-	-	-	70
Nuclenor, S.A.	-	-	25	-	(38)	-	-	13	-	-
Énergie Électrique de Tahhadart, S.A.	31	-	-	-	6	(5)	-	(1)	-	31
Suministradora Eléctrica de Cádiz, S.A.	17	-	-	-	2	(3)	-	2	-	18
Other	11	-	-	-	12	(3)	-	(8)	-	12
TOTAL	1,087	(764)	25	-	(59)	(22)	-	14	(73)	208

(1) Results obtained up until the takeover date (see Note 5.4).

(2) Results obtained up until the disposal date (see Note 2.5.2).

Associates

Information at 31 December 2017 and 2016 taken from the financial statements of the main associates companies, used to prepare the accompanying Consolidated Financial Statements is as follows:

Millions of Euros

	Statement of financial position									
	Tecnatom, S.A.		Elcogas, S.A.		Gorona del Viento El Hierro, S.A.		Boiro Energía, S.A.		Compañía Eólica Tierras Altas, S.A.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Non-current assets	74	77	1	1	80	82	4	4	29	35
Current assets	59	58	31	47	28	14	29	22	6	2
Cash and cash equivalents	2	5	29	46	23	1	7	7	1	1
Other current assets	57	53	2	1	5	13	22	15	5	1
Total assets	133	135	32	48	108	96	33	26	35	37
Equity	65	78	(109)	(107)	50	33	21	22	32	34
Non-current liabilities	25	31	130	129	54	56	2	-	2	1
Non-current interest-bearing loans and borrowings	23	30	129	129	21	22	-	-	-	-
Other non-current Liabilities	2	1	1	-	33	34	2	-	2	1
Current liabilities	43	26	11	26	4	7	10	4	1	2
Current interest-bearing loans and borrowings	11	9	-	-	2	2	-	-	-	-
Other current liabilities	32	17	11	26	2	5	10	4	1	2
Total equity and liabilities	133	135	32	48	108	96	33	26	35	37

Millions of Euros

	Income Statement									
	Tecnatom, S.A.		Elcogas, S.A.		Gorona del Viento El Hierro, S.A.		Boiro Energía, S.A.		Compañía Eólica Tierras Altas, S.A.	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	57	88	1	18	23	12	22	20	11	8
Depreciation and amortisation, and impairment losses	(6)	(8)	-	-	(3)	(3)	-	-	(3)	(6)
Financial income	-	-	-	-	-	-	-	-	-	-
Financial expense	-	(1)	-	-	(1)	(1)	-	-	-	-
Profit/(loss) before tax	(9)	1	(1)	(2)	15	5	5	5	2	(1)
Income tax expense	-	-	-	-	(2)	-	(1)	(1)	(1)	-
Profit/(loss) from continuing operations	(9)	1	(1)	(2)	13	5	4	4	1	(1)
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	(9)	1	(1)	(2)	13	5	4	4	1	(1)

These figures correspond to information on the individual companies, except those for Tecnatom, S.A. that correspond to their Consolidated Financial Statements.

Eléctrica de Jafre, S.A.

On 31 May 2017 ENDESA Red, S.A.U. acquired 52.54% of the share capital of Eléctrica de Jafre, S.A., whose activity entails electricity transmission and distribution, and the lease and reading of water and electricity meters. ENDESA Red, S.A.U. previously held 47.46% in this company.

As a result of this transaction, ENDESA went from having significant influence to full control of Eléctrica de Jafre, S.A., thus reinforcing its distribution activity (see Notes 2.3, 2.4 and 5.2).

The net gain at the date control was obtained from the measure at fair value of the previously held non-controlling interest of 47.46% in Eléctrica de Jafre, S.A. was less than Euros 1 million, with the following detail (see Note 5.2):

Millions of Euros

Fair Value of Net Assets Acquired (100%)	2
Fair Value of Net Assets Acquired (47.46%)	1
Value of shareholding in Eléctrica de Jafre, S.A.U. Prior to takeover (47.46%)	-
Net gain generated by the measurement at fair value of the non-controlling interest of 47.46%	1

ENEL Green Power España, S.L.U. (EGPE).

On 27 July 2016, 60% of the holding in ENEL Green Power España, S.L.U. was acquired by ENDESA, S.L.U. (EGPE), which led to its takeover (see Notes 2.3.1, 2.4 and 5.4) and, consequently, the company ceased to be accounted for using the equity method and became fully consolidated.

Prior to the aforementioned takeover, signs of impairment were observed on the carrying amount of the holding owned by ENDESA. Accordingly, at 30 June 2016 an impairment loss of Euros 72 million was recognised under "Loss of companies accounted for using the equity method" on the consolidated income statement for the negative difference between the two amounts.

Specifically, the recoverable value of ENEL Green Power España, S.L.U. (EGPE) was determined as the fair value of ENDESA's stake less costs of disposal. In this transaction, the fair value coincided with the value in use of this investment. Fair value was determined by discounting the estimated future cash flows from the investment in its ordinary business of electricity production using renewable energy sources in Spain, less ENDESA's proportionate share in the amount of debt at the reporting date and costs necessary to make the sale. This fair value measurement is classified as Level 3 in the fair value hierarchy.

The main key assumptions used to calculate the recoverable value of ENEL Green Power España, S.L.U. (EGPE) did not differ substantially from those considered at 31 December 2015, except regarding the forecast for energy selling prices. Specifically, in 2016, the projections for the performance of energy sale prices for the coming five years experienced a drop of approximately 15-20% in comparison with the forecasts made at 31 December 2015. These new projections were verified by ENDESA against external sources (IHS, Bloomberg, Equity Research, Poyry, etc) (see Note 3e.2).

Lastly, as a result of the fair-value measurement of the non-controlling interest of 40% in ENEL Green Power España, S.L.U. (EGPE) on the takeover date, ENDESA recognised a loss of Euros 4 million under "Net profit/loss of companies accounted for using the equity method" in the consolidated income statement.

The reconciliation of the carrying amount of the previous holding in ENEL Green Power España, S.L.U. (EGPE) with financial information concerning the company at the takeover date was as follows:

Millions of Euros

	27 July 2016
Total equity of the Parent	1,861
Share in total equity (40%)	744
Goodwill	61
Fair value of the shareholding in the takeover	805

Results generated by ENEL Green Power España, S.L.U. (EGPE) prior to the takeover date, as described in Note 5.4, recognised under "Net profit/loss of companies accounted for using the equity method" in the consolidated income statement are as follows:

Millions of Euros

	2016
Net profit of the prior interest of 40% (1)	7
Impairment of holding	(72)
Net result of fair value measurement	(4)
TOTAL (2)	(69)

(1) Corresponds to the results generated for the previous 40% stake up to 27 July 2016, the date of the takeover.

(2) Additionally, as a result of the takeover a deferred tax liability of Euros 81 million was reversed (see Notes 22 and 32).

Elcogas, S.A.

On 18 September 2015, Spain's Official State Gazette (BOE) published the Resolution of 31 July 2015, handed down by the Ministry of Energy, Tourism and Digital Agenda's Energy Policy and Mines department, authorising Elcogas, S.A. to close the 320 MW integrated combined-cycle gasification thermoelectric power plant in the municipality of Puertollano (Ciudad Real), within a 3 month deadline 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 30 October 2015, the Ministry of Energy, Tourism and Digital Agenda passed a resolution granting a three months extraordinary, and one-time, extension for the closure until 31 January 2016, for which the company presented a feasibility plan.

After several appeals to the Government, on 21 December 2015, the Board of Directors of Elcogas, S.A. approved the feasibility plan for submission to the Ministry of Energy, Tourism and Digital Agenda which included the minimum conditions needed to make the company viable. On 18 January 2016, Ministry of Energy, Tourism and Digital Agenda rejected the proposed plan, and as a result, in the absence of a feasibility plan, on 21 January 2016, Elcogas, S.A.'s board agreed to proceed with the decommissioning and closure of the plant within the maximum period set by the Ministry.

ENDESA has recognised a provision to cover the estimated costs it will incur as a result of the closure of this plant described above, amounting to Euros 55 million at 31 December 2017 and 2016 (see Note 17.3).

Joint ventures

Information at 31 December 2017 and 2016 taken from the financial statements of the main joint ventures, used to prepare the accompanying Consolidated Financial Statements, is as follows:

Millions of Euros

Statement of financial position								
	Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.		Nucleonor, S.A.		Énergie Électrique de Tahhadart, S.A.		Suministradora Eléctrica de Cádiz, S.A.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	250	277	43	48	93	111	71	74
Non-current assets	149	135	111	88	28	32	24	18
Current assets	86	94	1	1	7	4	6	6
Cash and cash equivalents	63	41	110	87	21	28	18	12
Other current assets	399	412	154	136	121	143	95	92
Total assets								
	168	164	3	(39)	94	98	38	52
Equity	129	163	91	97	10	9	23	23
Non-current liabilities	99	149	-	-	10	9	5	7
Non-current interest-bearing loans and borrowings	30	14	91	97	-	-	18	16
Other non-current liabilities	102	85	60	78	17	36	34	17
Current liabilities	50	49	-	-	-	20	12	11
Current interest-bearing loans and borrowings	52	36	60	78	17	16	22	6
Total equity and liabilities	399	412	154	136	121	143	95	92

Millions of Euros

Income Statement								
	Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.		Nucleonor, S.A.		Énergie Électrique de Tahhadart, S.A.		Suministradora Eléctrica de Cádiz, S.A.	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	267	207	9	7	56	56	5	15
Depreciation and amortisation, and impairment losses	(55)	(54)	(3)	(3)	(13)	(13)	(1)	(3)
Financial income	-	-	-	-	-	-	-	-
Financial expense	(1)	(1)	(1)	(1)	(1)	(2)	-	-
Profit/(loss) before tax	34	31	(34)	(67)	30	28	3	8
Income tax expense	(11)	(9)	-	-	(9)	(9)	-	-
Profit/(loss) from continuing operations	23	22	(34)	(67)	21	19	3	8
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	1	-	(5)	2	-	-
Total Comprehensive Income	23	22	(33)	(67)	16	21	3	8

Details of these joint ventures' equity correspond to information on the individual companies.

ENEL Insurance N.V.

In 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 had no impact on the 2016 consolidated income statement.

Prior to the transaction described above, in 2016, the indirect 100% stake in Compostilla Re, S.A. held through ENEL Insurance N.V., in which ENDESA owns 50% of its share capital, was sold to CLT Holding AD for a total price of Euros 50 million. The sale generated a gain of Euros 9 million included in the profit obtained by ENEL Insurance N.V. in the period (see Note 2.5.2).

Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.

On 30 March 2016, ENDESA purchased from EDP – Gestão de Produção de Energia, S.A. of 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 7 million, ENDESA increased its investment in the share capital of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A to 43.75% (see Note 2.5.2).

Nuclenor, S.A.

The main business of Nuclenor, S.A. is the operation of the nuclear power plant it owns at Santa María de Garoña, the operating permit for which expired on 6 July 2013.

Pursuant to Royal Decree 102/2014, of 21 February 2014, for responsible safe management of spent nuclear fuel and radioactive waste, which entitled Nuclenor, S.A. to submit an application prior to 6 July 2014 to extend Santa María de Garoña's operating permit for an indefinite period of time, the company has been taking the necessary steps to obtain a new operating permit.

On 3 August 2017, Ministerial Order IET/754/2017, of 1 August was published in the Official State Gazette (BOE), rejecting the renewal of the operating licence for the Santa María de Garoña nuclear plant. On the same date, the board of directors of Nuclenor, S.A. resolved not to file an appeal against Ministerial Order ETU/754/2017, of 1 August. Lastly, once the appeal period had concluded and as the plant was in definitive shut down, the start of the pre-dismantling process was set for 1 September 2017.

Therefore, Santa María de Garoña, the main asset of Nuclenor S.A., was not operational in 2017 or 2016. It has now ceased operating and has reached the pre-dismantling phase.

“Non-current provisions” under liabilities in the consolidated statement of financial position at 31 December 2017 and 2016 included the provision to cover the estimated higher costs to be incurred by the Company as a result of the situation explained above (see Note 17.3).

“Net profit/(loss) of companies accounted for using the equity method” on the consolidated income statement in 2017 and 2016 includes a negative impact of Euros 48 million and Euros 38 million, respectively, arising from the holding in 50% of Nuclenor, S.A., for the recognition of this provision.

Remaining companies

At 31 December 2017 and 2016, the aggregate information in the financial statements for the remaining associates and joint ventures considered individually to not be relevant is as follows:

Millions of Euros

	Associates		Joint ventures	
	2017	2016	2017	2016
Profit/(loss) from continuing operations	6	3	23	52
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other comprehensive income	1	-	13	(1)
Total Comprehensive Income	7	3	36	51

11.2. Joint operation entities

At 31 December 2017 and 2016, information taken from the financial statements of the main joint operation entities used to prepare the accompanying Consolidated Financial Statements is as follows:

Millions of Euros

	Statement of financial position	
	Asociación Nuclear Ascó-Vandellós II, A.I.E. /	
	31 December 2017	31 December 2016
Non-current assets	102	123
Current assets	135	137
Cash and cash equivalents	-	-
Other current assets	135	137
Total assets	237	260
Equity	16	16
Non-current liabilities	110	131
Non-current interest-bearing loans and borrowings	-	-
Other non-current Liabilities	110	131
Current liabilities	111	113
Current interest-bearing loans and borrowings	-	-
Other current liabilities	111	113
Total equity and liabilities	237	260

Millions of Euros

	Income Statement	
	Asociación Nuclear Ascó-Vandellós II, A.I.E. /	
	2017	2016
Revenue	224	291
Depreciation and amortisation, and impairment losses	-	-
Financial income	-	-
Financial expense	(2)	(2)
Profit/(loss) before tax	(15)	34
Income tax expense	-	-
Profit/(loss) from continuing operations	(15)	34
Profit/(loss) after tax from discontinued operations	-	-
Other comprehensive income	15	(32)
Total Comprehensive Income	-	2

The breakdown of cash flows generated by joint operation entities in the years ended 31 December 2017 and 2016 is as follows:

Millions of Euros

	2017	2016
Net cash flows from operating activities	(30)	29
Net cash flows from investing activities	30	(29)
Net cash flows from financing activities	-	-

At 31 December 2017 and 2016, ENDESA had not incurred any significant contingent liabilities related with the joint operation entities.

12. Inventories

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros		
	31 December 2017	31 December 2016
Fuel stocks	756	738
Coal	253	243
Nuclear fuel	303	341
Fuel oil	80	72
Gas	120	82
Other inventories	225	182
Carbon dioxide emission allowances (CO ₂)	292	293
Valuation adjustments	(6)	(11)
TOTAL	1,267	1,202

12.1. Carbon dioxide emission allowances (CO₂)

During the years 2017 and 2016, CO₂ emission allowances of 2016 and 2015 were redeemed, resulting in the derecognition of Euros 188 million and Euros 239 million, respectively (29.4 million tonnes and 33.7 million tonnes, respectively).

At 31 December 2017, the provision for allowances to be delivered to cover these (CO₂) emissions under current liabilities on the consolidated statement of financial position amounted to Euros 215 million (Euros 190 million at 31 December 2016) (see Note 24).

At 31 December 2017, future commitments to purchase CO₂ emission rights, CERs and ERUs amounted to Euros 66 million (Euros 56 million at 31 December 2016) in accordance with the agreed prices if all the projects are completed successfully.

Of this amount, Euros 65 million were committed with Group Companies at 31 December 2017 (Euros 18 million at 31 December 2016) (see Note 35.1.2).

12.2. Commitments to acquire inventories

At 31 December 2017, fuel stock purchase commitments amounted to Euros 18,656 million (Euros 20,596 million at 31 December 2016), of which a portion corresponds to agreements that have "take or pay" clauses.

At 31 December 2017, the breakdown of the future commitments to purchase commodities is the following:

Millions of Euros								
	Future purchase commitments at 31 December 2017 ⁽¹⁾							
	Electricity	Nuclear fuel	Fuel oil	Gas	Others	Total		
2018-2022	17	279	532	7,145	438	8,411		
2023-2027	-	9	-	6,548	-	6,557		
2028-2032	-	-	-	3,705	-	3,705		
TOTAL	17	288	532	17,398	438	18,673		

(1) None of these amounts are committed with Group Companies or correspond to Joint Ventures.

At 31 December 2017 and 2016, commitments to acquire inventories includes the commitment to acquire liquefied natural gas under contracts arranged in 2014 with Corpus Christi Liquefaction, LLC, part of which are guaranteed by ENEL, S.p.A. (see Note 35.1.2).

The Company's directors consider that ENDESA will be able to fulfil these obligations and, therefore, they do not expect any contingency to arise in this respect.

12.3. Other information

At 31 December 2017 and 2016, ENDESA had not pledged material amounts of inventories to secure the repayment of debts.

ENDESA has taken out insurance policies to cover the risk of damage to its inventories. It considers that coverage provided by these policies is sufficient.

13. Trade and other receivables

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Financial instruments	19	2,791	2,951
Trade receivables		2,732	2,684
Electricity trade receivables		2,201	1,974
Gas trade receivables		372	203
Receivables from other transactions		132	483
Receivable from Group companies and associates	35.1.3 and 35.2	27	24
Non-financial derivatives	19.3	160	233
Non-financial derivatives related to third-party transactions		53	137
Non-financial derivatives from Group companies and associates	35.1.3	107	96
Other receivables		349	450
Other receivables from third parties		310	171
Other Group companies and associates	35.1.3	39	279
Valuation adjustments		(450)	(416)
Trade receivables	20.5	(364)	(385)
Other receivables		(86)	(31)
Tax assets		309	501
Current income tax		223	397
Value Added Tax (VAT) receivable (2)		42	35
Other taxes		44	69
TOTAL		3,100	3,452

Balances included under this caption do not generally earn interest.

At 31 December 2017 and 2016, no one customer has balances payable to ENDESA that are significant with respect to ENDESA's total revenues or receivables.

Regular meter reading periods are not matched to the financial reporting date. ENDESA accordingly makes an estimate of unbilled sales made by its supply companies ENDESA Energía, S.A.U. and ENDESA Energía XXI, S.L.U. At 31 December 2017, the cumulative balances of unbilled power and gas sales are recognised under "Trade and other receivables" on the asset side of the accompanying statement of financial position and total Euros 1,021 million and Euros 433 million, respectively (Euros 840 million and Euros 285 million, respectively, at 31 December 2016). In addition, this power is associated with estimated unbilled electricity and gas grid access fees of Euros 358 million and Euros 161 million, respectively (Euros 323 million and Euros 143 million, respectively, at 31 December 2016).

13.1. Other information

Average collection period

The average collection period for trade receivables was 30 days in 2017 and 32 days in 2016. Therefore, fair value does not differ significantly from carrying amount.

Valuation adjustments

The movement in "Valuation adjustments" in 2017 and 2016 is as follows:

Millions of Euros			
	Notes	2017	2016
Opening balance		416	411
Charges	19.4.1, 29 and 34.2	182	104
Applications		(148)	(99)

Transfers and other	-	-
Closing balance	450	416

At 31 December 2017 and 2016, virtually all valuation adjustments relate to trade receivables for sales of electricity.

Other information

At 31 December 2017 and 2016, there are no significant restrictions on the use of collection rights of this nature.

Factoring transactions were carried out in 2017 and 2016. The undue balances at 31 December 2017 and 2016, amounted to Euros 756 million and Euros 488 million, respectively, which were derecognised from the consolidated statement of financial position. These transactions were recognised at a cost of Euros 27 million and 25 million, respectively, under "Non-financial derivatives" on the consolidated income statement (see Note 31).

14. Cash and cash equivalents

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Cash in hand and at banks		399	418
Cash equivalents		-	-
TOTAL	19	399	418

Details at 31 December 2017 and 2016 by currency are as follows:

Millions of Euros			
	Currency		
	31 December 2017	31 December 2016	
Euro	398		416
US dollar (USD)	1		1
Other currencies	-		1
TOTAL	399		418

There were no investments in sovereign debt at 31 December 2017 and 2016.

At 31 December 2017, the balance of cash and cash equivalents includes Euros 12 million corresponding to the debt service reserve account set up by certain ENDESA renewable energy subsidiaries by virtue of the project finance loans arranged (Euros 13 million at 31 December 2016) (see Note 18.2.3).

15. Equity

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros				
	Notes	31 December 2017	31 December 2016	
Total equity of the Parent	15.1	9,096	8,952	
Share capital	15.1.1	1,271	1,271	
Share premium	15.1.2	89	89	
Legal Reserve	15.1.3	254	254	
Revaluation reserve	15.1.4	404	404	
Other reserves	15.1.5	106	106	
Valuation adjustments		(52)	(38)	
Translation differences		-	1	
Unrealised revaluation adjustments	15.1.6	(52)	(39)	
Reserve for actuarial gains and losses	15.1.7	(657)	(757)	
Retained earnings	15.1.8	8,422	8,364	
Interim dividend	15.1.9	(741)	(741)	
Total Equity of non-controlling interests	15.2	137	136	
TOTAL EQUITY		9,233	9,088	

15.1. Equity: Parent

15.1.1. Share capital

At 31 December 2017, ENDESA had share capital of Euros 1,270,502,540.40, represented by 1,058,752,117 bearer shares with a par value of Euros 1.2 each, subscribed and fully paid up and all admitted for trading on the Spanish Stock Exchanges. There were no changes in share capital in 2017 and 2016.

At 31 December 2017 and 2016, the ENEL Group held 70,101% of the share capital in ENDESA, S.A., through ENEL Iberia, S.L.U. At that date no other shareholder held more than 10% of the share capital of ENDESA, S.A.

15.1.2. Share premium

The share premium arises from the Company's corporate restructuring. Article 303 of the consolidated text of the Corporate Enterprises Act expressly permits the use of the share premium to increase capital and does not establish any specific restrictions as to its use.

Nonetheless, at 31 December 2017, Euros 49 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 53 million at 31 December 2016).

15.1.3. Legal reserve

In accordance with Article 274 of the consolidated text of the Corporate Enterprises Act, an amount equal to 10% of the profit for the year must be earmarked for the legal reserve until such reserve represents at least 20% of the capital.

The legal reserve can be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase. Except for the aforementioned purpose, the legal reserve may not be used to offset losses unless it exceeds 20% of the capital and no other sufficient reserves are available for such purpose.

At 31 December 2017 and 2016, ENDESA, S.A. held the minimum amount stipulated in law for this reserve.

15.1.4. Revaluation reserve

The revaluation reserve is a result of the revaluation of assets made pursuant to Royal Decree-Law 7/1996, of 7 June 1996.

On 1 January 2000, the revalued assets were contributed to the corresponding companies following the corporate restructuring carried out by ENDESA.

This balance can be used, tax-free, to offset the accounting loss for the year or accounting losses accumulated from prior years or that could arise in the future, and to increase share capital or unrestricted reserves, and in the latter case, monetary gain has been realised. The gain will be deemed to have been realised when the related revalued assets have been depreciated, transferred or derecognised.

This balance would be taxed if used for any purpose other than that foreseen in Royal Decree Law 7/1996 of 7 June 1996.

At 31 December 2017, Euros 314 million are restricted to the extent that they are subject to tax benefits applied in previous years (Euros 327 million at December 31, 2016).

15.1.5. Other reserves

At 31 December 2017 and 2016, these mainly consist of the redeemed capital reserve in the amount of Euros 102 million, in compliance with Article 335 of Spain's Corporate Enterprises Act, which requires companies to post to this reserve an amount equal to the par value of the redeemed shares or of the reduction in their par value, when the reduction is charged to unrestricted profits or reserves by redeeming shares acquired free of charge by the Company. The drawdown on this reserve will be subject to the same requirements as set forth for reducing share capital.

15.1.6. Unrealised valuation adjustments

Movement in this reserve in 2017 and 2016 is as follows:

Millions of Euros

	Notes	31 December 2016	Changes in the consolidation scope	Change in market value	Amount taken to income	Other transactions with shareholders or owners	31 December 2017
Cash flow hedges	19.3	42	-	86	(108)	-	20
Interest rate derivatives		(29)	-	29	-	-	-
Exchange rate derivatives		9	-	(60)	19	-	(32)
Commodities derivatives		62	-	117	(127)	-	52
Investments accounted for using the equity method		(47)	-	1	2	-	(44)
Other valuation adjustments		1	-	-	-	-	1
Tax effect		(35)	-	(21)	27	-	(29)
TOTAL		(39)	-	66	(79)	-	(52)

Millions of Euros

	Notes	31 December 2015	Changes in the consolidation scope (Note 5)	Change in market value	Amount taken to income	Other transactions with shareholders or owners	31 December 2016
Cash flow hedges	19.3	(62)	-	126	(22)	-	42
Interest rate derivatives		(29)	-	-	-	-	(29)
Exchange rate derivatives		4	-	8	(3)	-	9
Commodities derivatives		(37)	-	118	(19)	-	62
Investments accounted for using the equity method		(51)	3	(5)	6	-	(47)
Other valuation adjustments		1	-	-	-	-	1
Tax effect		(8)	-	(32)	5	-	(35)
TOTAL		(120)	3	89	(11)	-	(39)

15.1.7. Reserve for actuarial gains and losses

At 31 December 2017 and 2016 this reserve derives from actuarial gains and losses recognised in equity (see Note 17.1).

15.1.8. Retained earnings

Details of the Company's reserves at 31 December 2017 and 2016 are as follows:

Millions of Euros	31 December 2017	31 December 2016
Voluntary reserves	703	703
Merger reserve	667	667
Other unrestricted reserves	36	36
Other retained earnings	7,719	7,661
TOTAL	8,422	8,364

The merger reserve stems from the restructuring of the Company, and its balance at 31 December 2017 amounts to Euros 667 million, Euros 104 million of which are undistributable because they are subject to certain tax benefits (Euros 667 million and Euros 110 million respectively at 31 December 2016).

15.1.9. Dividends

2017

At its meeting on 21 November 2017, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2017 profit of Euros 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2018 (see Note 23). This interim dividend was recognised under the Parent Company's Equity at 31 December 2017.

2016.

At its meeting on 22 November 2016, ENDESA S.A.'s Board of Directors resolved to pay shareholders a gross interim dividend against 2016 profit of Euros 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2017 (see Note 23). This interim dividend was recognised under the Parent Company's Equity at 31 December 2016.

Approval was given at ENDESA General Shareholders' Meeting of 26 April 2017 to pay shareholders a total dividend charged against 2016 profit of a gross €1,333 per share (€1,411 million). The difference between the total dividend approved by the shareholders and the interim dividend already paid and described above, for a total pay-out of Euros 670 million (Euros 0,633 gross per share), was paid on 3 July 2017.

15.1.10. Gains and losses recognised in the consolidated statement of other comprehensive income

The composition at 31 December 2017 and 2016, and movements in relation to gains and losses recognised in the consolidated statement of other comprehensive income are as follows:

Millions of Euros

Notes	31 December 2016					Changes in 2017			31 December 2017		
	Total	Of the Parent	Non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax effect	Changes in consolidation scope	Other transactions with shareholders or owners	Total	Of the Parent	Non-controlling interests
Items that can be reclassified to profit or loss:	(39)	(39)	-	86	(106)	6	-	-	(53)	(53)	-
From measurement of financial instruments	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	15.1.6	7	7	86	(108)	6	-	-	(9)	(9)	-
Translation differences	-	-	-	(1)	-	-	-	-	(1)	(1)	-
Companies accounted for using the equity method	15.1.6	(46)	(46)	1	2	-	-	-	(43)	(43)	-
Other income and expense recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Items not to be reclassified to profit or loss in subsequent period:	(757)	(757)	-	127	-	(27)	-	-	(657)	(657)	-
Actuarial gains and losses and other adjustments	17.1	(757)	(757)	127	-	(27)	-	-	(657)	(657)	-
TOTAL	(796)	(796)	-	213	(106)	(21)	-	-	(710)	(710)	-

Millions of Euros

Notes	31 December 2015					Changes in 2016			31 December 2016		
	Total	Of the Parent	Non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax effect	Changes in consolidation scope (Note 5)	Other transactions with shareholders or owners	Total	Of the Parent	Non-controlling interests
Items that can be reclassified to profit or loss:	(120)	(120)	-	121	(16)	(27)	3	-	(39)	(39)	-
From measurement of financial instruments	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	15.1.6	(70)	(70)	126	(22)	(27)	-	-	7	7	-
Companies accounted for using the equity method	15.1.6	(50)	(50)	(5)	6	-	3	-	(46)	(46)	-
Other income and expense recognised directly in equity	-	-	-	-	-	-	-	-	-	-	-
Items not to be reclassified to profit or loss in subsequent period:	(584)	(584)	-	(221)	-	48	-	-	(757)	(757)	-
Actuarial gains and losses and other adjustments	17.1	(584)	(584)	(221)	-	48	-	-	(757)	(757)	-
TOTAL	(704)	(704)	-	(100)	(16)	21	3	-	(796)	(796)	-

15.1.11. Capital management

ENDESA's capital management focuses on maintaining a solid financial structure that optimises the cost of capital and the availability of financial resources to guarantee business continuity over the long term. This policy of financial prudence makes it possible to maintain an adequate level of value creation for shareholders while guaranteeing ENDESA's liquidity and solvency.

The Parent Company's directors consider that an indicator of its ongoing financial position is its consolidated leverage ratio. Details of this ratio at 31 December 2017 and 2016 are as follows:

Millions of Euros			
Net financial debt	Notes	Leverage ⁽¹⁾	
		31 December 2017	31 December 2016
Non-current interest-bearing loans and borrowings			
Current interest-bearing loans and borrowings		4,985	4,938
Cash and cash equivalents	18.1	4,414	4,223
Derivatives recognised as financial assets	18.1	978	1,144
Net financial debt	14	(399)	(418)
Non-current interest-bearing loans and borrowings	19.3	(8)	(11)
Equity:	15	9,233	9,088
Of the Parent	15.1	9,096	8,952
Of Non-Controlling Interests	15.2	137	136
Leverage (%)		53.99	54.34

(1) Leverage (%) = Net financial debt / equity.

ENDESA uses principles of prudence that are similar to those applied until now in its financing structure by obtaining long-term financing that enables it to adjust its maturity schedule to its capacity to generate cash flow envisaged in the business plan. The Company also has short-term financing that helps optimise the management of its working capital requirements and improve the cost of its debt.

The stabilisation of electricity regulations, as well as a profitability-focused industrial plan, have allowed the Company to propose a dividend policy designed so that its shareholders earn the maximum possible return on their investment without compromising sustainability and the potential for long-term growth.

The Company's directors consider that its leverage will enable it to optimise the cost of capital while maintaining a high solvency ratio. Therefore, in due consideration of expectations of earnings and the investment plan, the future dividend policy will maintain a leverage ratio that will allow the aforementioned capital management target to be achieved.

In 2017 it was resolved to distribute a total dividend against 2016 profits for the amount of Euros 1,411 million (Euros 741 million corresponding to the interim dividend of Euros 0.70 per share, gross, paid on 2 January 2017 and Euros 670 million corresponding to the supplementary dividend of Euros 0,633, gross, paid on 3 July 2017) without this negatively impacting the Company's net debt/equity ratio (see Note 15.1.9).

In 2016 dividends were distributed against 2015 profits for the amount of Euros 1,086 million (Euros 1,026 per share, gross), paid on 4 January 2016 (interim dividend of Euros 0.40 per share, gross) and 1 July 2016 (supplementary dividend of Euros 0,626 per share, gross).

ENDESA's long-term ratings allocated by credit rating agencies at the respective dates of issue of the Consolidated Financial Statements for the years ended 31 December 2017 and 2016, reflecting investment grade levels, are as follows:

	31 December 2017			31 December 2016		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB+	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

The Parent Company's Directors consider that the ratings assigned by the agencies would enable the Parent Company to tap the financial markets on reasonable terms if need be.

15.1.12. Restrictions on the availability of funds and pledges of shares of subsidiaries

At 31 December 2017, certain ENDESA subsidiaries that operate in the renewable energy business, and which are financed through project finance, contain clauses in their financing agreements that must be complied with before profits can be distributed to shareholders.

At 31 December 2017, financial debt subject to these restrictions totals Euros 159 million (Euros 178 million at 31 December 2016) (see Notes 6.1, 18.2.3 and 36.1).

15.2. Equity: Non-controlling interests

At 31 December 2017 and 2016, the composition and movements of this item of the consolidated statement of financial position are as follows:

Millions of Euros						
	Balance at 31 December 2016	Business combinations	Dividends paid	Profit for the year	Disposals or reductions ⁽¹⁾	Balance at 31 December 2017
Aguilón 20, S.A.	22	-	-	2	-	24
Eólica Valle del Ebro, S.A.	5	-	-	-	-	5
Explotaciones Eólicas Saso Plano, S.A.	8	-	-	1	-	9
Parque Eólico Sierra del Madero, S.A.	17	-	-	1	-	18
Sociedad Eólica de Andalucía, S.A.	27	-	(2)	2	-	27
Other	57	-	(1)	4	(6)	54
TOTAL	136	-	(3)	10	(6)	137

(1) Correspond to the departure from the consolidation perimeter of Nueva Marina Real Estate, S.L. amounting to positive Euros 2 million and to the acquisition of the total shareholding in Productor Regional de Energía Renovable, S.A.U. and Productor Regional de Energía Renovable III, S.A.U. amounting to negative Euros 8 million (see Note 2.3.1).

Millions of Euros						
	Balance at 31 December 2015	Business combinations (Note 5)	Dividends paid	Profit for the year	Disposals or reductions ⁽¹⁾	Balance at 31 December 2016
Aguilón 20, S.A.	-	21	-	1	-	22
Eólica Valle del Ebro, S.A.	-	6	(1)	-	-	5
Explotaciones Eólicas Saso Plano, S.A.	-	8	-	-	-	8
Parque Eólico Sierra del Madero, S.A.	-	19	-	(2)	-	17
Sociedad Eólica de Andalucía, S.A.	-	26	-	1	-	27
Other	3	68	(2)	1	(13)	57
TOTAL	3	148	(3)	1	(13)	136

(1) Correspond to the departure from the consolidation perimeter of Energía de La Loma, S.A. and Energías de la Mancha Eneman, S.A. (see Note 2.3.1).

At 31 December 2017 and 2016 the balance of "Equity of non-controlling interests" included mainly the non-controlling interests of investments held by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 132 million and Euros 133 million, respectively (see Note 5.4).

On 18 July 2017, ENEL Green Power España, S.L.U. (EGPE) completed the purchase of non-controlling interests in Productor Regional de Energía Renovable, S.A. (15%) and Productor Regional de Energías Renovables III, S.A. (17.11%) resulting in a reduction in the non-controlling interests of Euros 8 million (see Note 2.3.1).

At 31 December 2017 and 2016, the most relevant items of the consolidated statement of financial position, income statement and statement of cash flow of the main ENDESA companies with stakes in non-controlling interests used in the preparation of these Consolidated Financial Statements are as follows:

Millions of Euros

	Statement of financial position									
	Aguilón 20, S.A.		Eólica Valle del Ebro, S.A.		Explotaciones Eólicas Saso Plano, S.A.		Parque Eólico Sierra del Madero, S.A.		Sociedad Eólica de Andalucía, S.A.	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Non-current assets	100	106	10	11	33	35	71	75	149	156
Current assets	14	8	3	-	5	3	12	8	20	18
Total assets	114	114	13	11	38	38	83	83	169	174
Equity	49	45	11	10	24	23	43	41	73	72
Non-current liabilities	59	63	2	1	7	10	7	8	87	94
Current liabilities	6	6	-	-	7	5	33	34	9	8
Total equity and liabilities	114	114	13	11	38	38	83	83	169	174

Millions of Euros

	Income Statement									
	Aguilón 20, S.A.		Eólica Valle del Ebro, S.A.		Explotaciones Eólicas Saso Plano, S.A.		Parque Eólico Sierra del Madero, S.A.		Sociedad Eólica de Andalucía, S.A.	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	14	11	3	2	6	5	11	8	23	19
Profit/(loss) before tax	4	2	1	-	2	1	2	(1)	9	5
Profit/(loss) from continuing operations	3	1	1	-	2	1	2	(1)	7	4
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	3	1	1	-	2	1	2	(1)	7	4

Millions of Euros

	Statement of Cash Flows									
	Aguilón 20, S.A.		Eólica Valle del Ebro, S.A.		Explotaciones Eólicas Saso Plano, S.A.		Parque Eólico Sierra del Madero, S.A.		Sociedad Eólica de Andalucía, S.A.	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net cash flows from operating activities	9	5	2	-	5	3	4	6	16	11
Net cash flows from investing activities	-	(1)	-	-	(1)	(1)	(2)	(3)	(1)	(2)
Net cash flows from financing activities	(5)	(5)	(1)	-	(2)	(2)	-	-	(11)	(18)

The patrimonial data correspond to the information of the individual companies.

16. Deferred income

At 31 December 2017 and 2016, the composition and movements of this item of the consolidated statement of financial position are as follows:

Millions of Euros

	Notes	Grants related to assets	Facilities transferred from customers	Total
Balance at 31 December 2015		337	4,342	4,679
Additions		2	191	193
Changes in consolidated group	5.4 and 5.5	12	-	12
Amount taken to income	25.2	(18)	(155)	(173)
Others		1	-	1
Balance at 31 December 2016		334	4,378	4,712
Additions		6	187	193
Changes in consolidated group	5.2	-	1	1
Amount taken to income	25.2	(22)	(153)	(175)
Others		(3)	2	(1)
Balance at 31 December 2017		315	4,415	4,730

“Capital grants” includes mainly aid received under the partnership agreements entered into to improve the quality of supply in the electricity distribution network with, inter alia, the Ministry for Energy, Tourism and Digital Agency and with regional governments for the construction of electricity distribution facilities.

Facilities transferred from customers include mainly the valuation of distribution facilities transferred by customers and the income received from third parties other than official bodies, and income from extension and connection rights necessary to handle requests for new services, or to extend existing ones. It also includes hookup and extension rights related to new installation extensions which the distributor must make in accordance with requested voltage and power, within legally-established limits, which are necessary to allow for new supply and extensions to the existing grid. These are regulated up to and including 2000 by Royal Decree 2949/1982, of 15 October, from 2001 by Royal Decree 1955/2000, of 1 September, and from 2013, by Royal Decree 1048/2013, of 27 December.

17. Non-current provisions

At 31 December 2017 and 2016 the composition of this item of the consolidated statement of financial position is as follows:

Millions of Euros

	Notes	31 December 2017	31 December 2016 ⁽¹⁾
Provisions for pensions and similar obligations	17.1	951	1,063
Provisions for workforce restructuring costs		773	948
Workforce reduction plans	17.2.1	120	160
Contract suspension	17.2.2	653	788
Other Non-current provisions	17.3	1,658	1,703
TOTAL		3,382	3,714

(1) See Note 5.4.

17.1. Provisions for pensions and similar obligations

All employees of the ENDESA, S.A. companies are members of the Pension Plan, unless they expressly opt out.

With the signing of the first Framework Agreement on 25 October 2000, a defined contribution pension scheme was established for retirement, and a defined benefit scheme for death and incapacity.

A scheme involving combined contributions by the company and the employee was established, with a maximum 6% of the pensionable salary being borne by the Company and 3% of the same salary by the employee.

There are also employees covered by origin agreements predating the Framework Agreement:

- Defined contribution for retirement, and defined benefit for death and incapacity and with benefit and contribution systems differing from those described above, the situation varying depending on the origin.
- Defined benefit for retirement, death and incapacity, relating to two major collectives:
 - Electricity employees of the former ENDESA. This is now closed, for which the predetermined nature of the retirement benefit and the fact that it is fully underwritten means that there is no risk.
 - Fecsa/Enher/HidroEmpordá employees. A collective that is closed for which the benefit is linked to the consumer price index (CPC) and not underwritten, with the exception of benefits arising up to 31 December 2011, the date on which an insurance policy was taken out to cover these benefits, thereby eliminating any future obligation as regards this collective.

For this collective, there is an internal fund as a provision together with the assets of the Plan covering the obligation in its entirety.

There are also certain social benefit obligations to employees during their retirement, relating mainly to supply of electricity. These obligations have not been externalised and are covered by the related in-house provisions.

ENDESA's pension plans are administered in accordance with the general restrictions to management and risk assumption in the respective legislations applicable in Spain.

At present, pension funds promoted by ENDESA companies undertake the specific risks inherent to the assets in which it has investments, which are mainly:

- Risks of investment in fixed-income assets arises from interest rate variations and the credit risk of the portfolio shares.
- Risks of investment in equities arises from the potential impact of volatility (changes) in the prices of the related assets, which is greater than that of fixed income.
- Risks of investment in derivative financial instruments arise in accordance with the degree of related leverage, making them especially vulnerable to changes in the prices of the underlying assets (benchmark asset).
- Investment in assets denominated in currencies other than the euro bear additional risk related to changes in exchange rates.
- Investments in non-tradable assets, made in less efficient markets with scant liquidity, pose measurement risks arising from the approaches used and the lack of market prices for comparison.

Actuarial assumptions

The assumptions used when calculating the actuarial liability in respect of uninsured defined benefit obligations at 31 December 2017 and 2016 is as follows:

	31 December 2017		
	Pensions	Energy	Health insurance
Interest rate	1.65%	1.67%	1.63%
Mortality tables	PERM / F2000	PERM / F2000	PERM / F2000
Expected return on plan assets	1.65%	N/A	N/A
Salary increase ⁽¹⁾	2.00%	2.00%	N/A
Increase in the cost of health care	N/A	N/A	3.20%

(1) Benchmark percentage for estimating salary increases.

	31 December 2016		
	Pensions	Energy	Health insurance
Interest rate	1.74%	1.75%	1.72%
Mortality tables	PERM / F2000	PERM / F2000	PERM / F2000
Expected return on plan assets	1.74%	N/A	N/A
Salary increase ⁽¹⁾	2.00%	2.00%	N/A
Increase in the cost of health care	N/A	N/A	3.20%

(1) Benchmark percentage for estimating salary increases.

The interest rate applied to discount the commitments is obtained from a curve constructed using the yields on corporate bond issues by companies with a "AA" credit rating and based on the estimated term over which the obligations deriving from each commitment will be settled.

Gross and net actuarial liabilities

At 31 December 2017 and 2016, the balance included in the consolidated statement of financial position as a result of the difference between the actuarial liability relating to defined benefit obligations and the market value of plan assets is as follows:

Millions of Euros	31 December 2017	31 December 2016
Actuarial liability	1,632	1,772
Plan assets	(681)	(709)
Difference	951	1,063
Shortfall recognised in respect of actuarial liability	951	1,063

A breakdown of net actuarial liabilities, gross and the changes in the market value of assets relating to defined benefit obligations at 31 December 2017 and 2016 is as follows:

Millions of Euros

Millions of Euros

	Notes	31 December 2017				31 December 2016			
		Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total
Opening net actuarial liability		236	813	14	1,063	131	695	13	839
Net interest	30	3	14	1	18	3	18	-	21
Service costs in the period		9	5	-	14	8	4	-	12
Benefits paid in the period		-	-	-	-	-	-	-	-
Contributions in the period		(15)	(20)	(1)	(36)	(14)	(26)	(1)	(41)
Other movements		10	3	-	13	8	2	-	10
Actuarial losses (gains) arising from changes in demographic assumptions		-	-	-	-	-	-	-	-
Actuarial losses (gains) arising from changes in financial assumptions		22	30	1	53	112	97	2	211
Actuarial (gains) losses arising from experience adjustments		(30)	(137)	-	(167)	(17)	22	-	5
Actuarial return on plan assets excluding Interest		(13)	-	-	(13)	5	-	-	5
Changes in asset ceiling		-	-	-	-	-	-	-	-
Changes in consolidated group	5	3	3	-	6	-	1	-	1
Closing net actuarial liability		225	711	15	951	236	813	14	1,063

Millions of Euros

Millions of Euros									
Notes	31 December 2017				31 December 2016				
	Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total	
Opening actuarial liability	945	813	14	1,772	855	695	13	1,563	
Finance expenses	16	14	1	31	21	18	-	39	
Service costs in the period	9	5	-	14	8	4	-	12	
Benefits paid in the period	(69)	(20)	(1)	(90)	(44)	(26)	(1)	(71)	
Other movements	10	3	-	13	8	2	-	10	
Actuarial losses (gains) arising from changes in demographic assumptions	-	-	-	-	-	-	-	-	
Actuarial losses (gains) arising from changes in financial assumptions	22	30	1	53	112	97	2	211	
Actuarial (gains) losses arising from experience adjustments	(30)	(137)	-	(167)	(17)	22	-	5	
Changes in consolidated group	5	3	-	6	2	1	-	3	
Closing actuarial liability	906	711	15	1,632	945	813	14	1,772	

Millions of Euros

Millions of Euros									
	Notes	31 December 2017				31 December 2016			
		Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total
Opening market value of plan assets		709	-	-	709	724	-	-	724
Expected return		13	-	-	13	18	-	-	18
Contributions in the period		15	20	1	36	14	26	1	41
Benefits paid in the period		(69)	(20)	(1)	(90)	(44)	(26)	(1)	(71)
Actuarial (losses) gains		13	-	-	13	(5)	-	-	(5)
Changes in consolidated group	5	-	-	-	-	2	-	-	2
Closing market value of plan assets		681	-	-	681	709	-	-	709

Plan assets

The main categories of defined benefit plan assets as a percentage of total assets, at 31 December 2017 and 2016, as follows:

	Percentage (%)	
	31 December 2017	31 December 2016
Fixed-income assets	60	64
Shares	33	30
Investment property and other	7	6
TOTAL	100	100

The breakdown of the fair value of fixed income securities by geographical area 31 December 2017 and 2016 is as follows:

Millions of Euros			
Country	31 December 2017	31 December 2016	
Spain	143	178	
Italy	48	72	
France	40	35	
US	30	20	
Germany	29	17	
UK	24	25	
Luxembourg	15	18	
Netherlands	13	15	
Brazil	1	-	
Belgium	1	3	
Other	65	71	
TOTAL	409	454	

At 31 December 2017 and 2016, the value of defined benefit plan assets placed in sovereign debt instruments is as follows:

Millions of Euros			
Country	31 December 2017	31 December 2016	
Spain	99	123	
Italy	25	39	
Belgium	7	8	
France	4	2	
Netherlands	1	1	
Germany	-	1	
Other	8	10	
TOTAL	144	184	

Defined benefit plan assets at 31 December 2017 include the ENEL Group companies' shares and bonds in the amount of Euros 20 million (Euros 22 million at 31 December 2016).

Shares and fixed-income instruments have quoted prices in active markets. The expected return on plan assets was estimated taking into account forecasts for the main fixed income and equity markets and assuming that the various asset classes would have similar weights to those of the preceding year. The average return rate in 2017 was 3.79% (3.72% in 2016).

Currently, the investment strategy and risk management are the same for all plan participants, with no correlation strategy between assets and liabilities.

Other information

At 31 December 2017 the weighted average duration, calculated based on probable flows of the obligation, was 16.7 years (16.9 years at 31 December 2016), and the calendar for payments of defined benefit obligations is as follows:

Millions of Euros	31 December 2017	31 December 2016
Year 1	41	52
Year 2	46	57
Year 3	50	57
Year 4	54	62
Year 5	57	64
From year 5	1,825	2,145
TOTAL	2,073	2,437

The classification of defined benefit plan assets measured at fair value by fair value hierarchy at 31 December 2017 and 2016 are as follows:

Millions of Euros	31 December 2017			
	Fair Value	Level 1	Level 2	Level 3
Defined benefit plan assets	681	587	74	20

Millions of Euros	31 December 2016			
	Fair Value	Level 1	Level 2	Level 3
Defined benefit plan assets	709	627	69	13

The valuation of assets classified as Level 3 is determined based on valuation reports prepared by the corresponding management company.

In 2017 and 2016, amounts recognised for defined-benefit and defined contribution pension obligations in the consolidated income statement, are as follows:

Millions of Euros	Notes	2017	2016
Plan assets		(32)	(33)
Current cost during the year ⁽¹⁾	27	(14)	(12)
Net finance costs	30	(18)	(21)
Defined contribution		(50)	(44)
Current cost during the year ⁽²⁾	27	(50)	(44)
TOTAL		(82)	(77)

(1) In 2017, includes Euros 9 million of the current cost relating to employees who opted to take early retirement, which had been recognised previously under provisions for workforce restructuring costs and transferred during the year to pension obligations (Euros 7 million in 2016).

(2) In 2017 and 2016, Euros 32 million and Euros 31 million were also contributed, respectively, which had been previously included under provisions for workforce restructuring costs.

In 2017 and 2016, amounts recognised for defined-benefit pension obligations in the consolidated statement of other comprehensive income are as follows:

Millions of Euros	Notes	2017	2016
Expected return on plan assets		13	(5)
Actuarial gains and losses		114	(216)
TOTAL	15.1.10	127	(221)

At 31 December 2017, based on the best estimate available, forecast contributions to defined benefit plans in 2018 amount to approximately Euros 21 million.

Sensitivity analysis

At 31 December 2017 and 2016, the sensitivity of the value of the actuarial liability for pensions to fluctuations in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Assumption	31 December 2017			31 December 2016		
	Pensions	Energy	Health insurance	Pensions	Energy	Health insurance
50 b.p. decrease in the interest rate	75	60	1	84	75	1
50 b.p. increase in the interest rate	(67)	(53)	(1)	(74)	(66)	(1)
50 b.p. decrease in the Consumer Price Index (CPI) ⁽¹⁾	(13)	(61)	(1)	(16)	(65)	(1)
50 b.p. increase in the Consumer Price Index (CPI) ⁽¹⁾	13	61	1	16	74	1
1% increase in healthcare costs	N/A	N/A	1	N/A	N/A	3
1 year increase in the life expectancy of working and retired employees	24	25	1	27	33	1

(1) Benchmark percentage for estimating salary increases.

17.2. Provisions for workforce restructuring costs

Provisions for the various workforce restructuring plans included in the consolidated statement of financial position are the result of individual or collective agreements with ENDESA's employees, whereby the Company undertakes to furnish a future consideration in the event of termination of employment or suspension of the employment arrangement by agreement between the parties.

17.2.1. Workforce reduction plans

At 31 December 2017, there were mainly four types of plan in force:

- Personnel restructuring plans approved by the former companies before the corporate restructuring process in 1999. The deadline for employees to adhere to these restructuring plans has passed and the obligation therefore mainly relates to employees who have left the Company. A total of 183 employees were considered in the valuation of this scheme (383 employees at 31 December 2016).
- Voluntary redundancy scheme approved in 2000. The scheme applies to employees with at least ten years of service in the group of companies concerned at 31 December 2005. Employees aged 50 or over at 31 December 2005 are entitled to early retirement at the age of 60. They may sign up to the scheme between the ages of 50 and 60, provided that there is an agreement between the employee and the company concerned. A total of 129 employees were considered in the valuation of this scheme, the majority of which have taken early retirement (435 employees, respectively, at 31 December 2016). For the scheme to apply to employees younger than 50 at 31 December 2005, a written request from the employee and the acceptance thereof by the company are required. Employees under the age of 50 who have signed up to the voluntary redundancy scheme receive a termination benefit of 45 days' salary per year of service plus an additional amount of one or two annual salary payments depending on the age of the employee in question at 31 December 2005.
- Mining Plans for 2006-2012. Employees are entitled to opt for inclusion in the plans on reaching 52 years of age (physically or equivalent) in 2006-2012, provided that at that date they have at least three years of service and eight years in a position with a reduction coefficient. Employees can be included in the plans by mutual agreement between the employee and the company. A total of 858 employees were considered in the valuation of this scheme, the majority of which have taken early retirement (866 employees at 31 December 2016). The economic conditions applicable to the employees who have signed up to these early retirement schemes are as follows:
 - The Company will pay the employee from the date of termination of their contract until the first date on which retirement can be taken after unemployment benefit contributions have ceased and, at most, until the employee's right is vested on reaching retirement age, a termination benefit based on their last annual salary and subject to review in line with the CPI.

- Any unemployment benefits and any other official early retirement benefits received prior to the retirement date will be deducted from the resulting amounts.
- Mining plan for 2016: the group of employees affected by the contract termination agreement is guaranteed from the moment their contract is terminated until the legal age of retirement to complete their gross ordinary remuneration up to 80%. In this period, they are entitled to receive the bonus for length of service, study aid and accident and life insurance, and also to receive contributions to the supplementary provision plan relating to the group to which the employee belongs. A total of 70 employees were considered in the valuation of this scheme, of which 69 have taken early retirement (70 employees, of which 47 had taken early retirement at 31 December 2016).

Movement in provisions for work force reductions in 2017 and 2016 is as follows:

Millions of Euros				
	Notes	2017	2016	
Opening balance		160	204	
Amounts charged to the income statement		(8)	27	
Personnel Expenses	27	(4)	2	
Finance income and costs	30	(4)	25	
Transfers to current and other		(32)	(72)	
Changes in consolidated group	5.4	-	1	
Closing balance		120	160	

Current provisions in the accompanying consolidated statement of financial position at 31 December 2017 also include Euros 73 million of provisions for work force reductions which will foreseeably be paid in 2018 (Euros 124 million of payments at 31 December 2016) (see Note 24).

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising under these collective redundancy procedures at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Interest rate	0.65%	0.64%
CPI	2.00%	2.00%
Mortality tables	PERM/F 2000	PERM/F 2000

Sensitivity analysis

At 31 December 2017 and 2016, the sensitivity of the value of the actuarial liability for restructuring plans to fluctuations in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Millions of Euros				
Assumption	31 December 2017		31 December 2016	
	50bp increase	50bp decrease	50bp increase	50bp decrease
Interest rate	(6)	7	(11)	12
CPI ⁽¹⁾	2	(2)	3	(3)

(1) Benchmark percentage for estimating salary increases.

17.2.2. Agreement on voluntary suspension or termination of employment contracts 2013-2018.

On 3 December 2013, ENDESA and employee representatives signed an “Agreement on voluntary suspension or termination of employment contracts in 2013-2018 on the framework agreement of guarantees for ENDESA, S.A. and its electricity subsidiaries”, which was registered in a resolution by the Department of Employment of 29 December 2013, published in the Official State Gazette (BOE) on 24 January 2014, which will apply to employees affected by any reorganisation processes that may be carried out during this period.

This agreement focuses on two groups and contemplates the following measures for each of them, and the mutual agreement of the company and the employee will be essential for them to be applied:

- For employees under 50 years old, it contemplates the possibility of the company allowing the employee to terminate the employment contract with payment of compensation.
- For employees over 50 years old, it contemplates the possibility of the company allowing the employee to suspend the employment contract for one year, in exchange for regular income during the suspension period. The suspension may be renewed for annual periods up to the ordinary date of retirement of the employee, provided neither the employee nor the company request the reinstatement of the employee.

As a result of the restructuring and reorganisation plan initiated by ENDESA, S.A., the Company has signed successive agreements with employee trade union representatives with an undertaking not to exercise, under certain assumptions, the right to request reinstatement at the company in successive annual renewals of agreements to suspend employment contracts that have been signed.

At 31 December 2017, there were 1,421 employees with a suspended contract pursuant to these agreements, and the Company acquired a commitment to offer suspension of the employment contract to a further 6 employees, of which all had already signed the suspension agreement at the date of these Consolidated Financial Statements (1,252 employees and 151 employees, respectively, at 31 December 2016).

The provisions made at 31 December 2017 to cover the obligations of this item totalled Euros 766 million, of which Euros 653 million were recognised as non-current provisions for workforce restructuring plans, and Euros 113 million as current provisions for workforce restructuring plans (see Note 24) (Euros 788 million and Euros 90 million, respectively at 31 December 2016) covering all the contract suspension agreements signed with employees or undertaken with employee representatives at 31 December 2017. The provisions covered the total cost to be assumed by the Company during the period for which, in accordance with the commitments acquired up to 31 December 2017, the Company cannot prevent the employment contract from being suspended.

Movements in this non-current provision in 2017 and 2016 are as follows:

Millions of Euros			
	Notes	2017	2016
Opening balance		788	672
Amounts charged to the income statement		(4)	237
Personnel expenses	27	(4)	207
Finance income and costs	30	-	30
Applications		(131)	(121)
Transfers and other		(131)	(121)
Closing balance		653	788

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising from the contract suspension agreement at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Interest rate	0.65%	0.64%
Future increase in guarantee	2.00%	2.00%
Increase in other items	2.00%	2.00%
Mortality tables	PERM / F2000	PERM / F2000

Sensitivity analysis

At 31 December 2017 and 2016, the sensitivity of the value of the actuarial liability for terminating contracts to fluctuations in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Millions of Euros

Assumption	31 December 2017		31 December 2016	
	50bp increase	50bp decrease	50bp increase	50bp decrease
Interest rate	(17)	19	(18)	19
Guarantee and remaining items	16	(16)	16	(15)

17.3. Other provisions

At 31 December 2017 and 2016, the composition of this item of the consolidated statement of financial position is as follows:

Millions of Euros

	Notes	Provisions for litigation, termination benefits and other legal or contractual obligations	Provisions for decommissioning costs	Total
Balance at 31 December 2016 ⁽¹⁾		728	975	1,703
Operating expenses		4	-	4
Charges		94	13	107
Applications		(90)	(13)	(103)
Finance income and costs	30	8	9	17
Net provisions charged to property, plant and equipment	6	-	(8)	(8)
Payments		(41)	(13)	(54)
Changes in consolidation scope ⁽²⁾	5.1 and 2.3.1	2	(6)	(4)
Balance at 31 December 2017		701	957	1,658

(1) See Note 5.4.

(2) Corresponds to the acquisition of the systems and telecommunications activity (ICT) (Euros 2 million) (see Note 5.1) and the deconsolidation of Nueva Marina Real Estate, S.L. (Euros 6 million) (see Note 2.3.1).

Millions of Euros

	Notes	Provisions for litigation, termination benefits and other legal or contractual obligations	Provisions for decommissioning costs	Total
Balance at 31 December 2015		755	935	1,690
Operating expenses		(19)	(4)	(23)
Charges		81	11	92
Applications		(100)	(15)	(115)
Finance income and costs	30	7	8	15
Net provisions charged to property, plant and equipment	6	-	66	66
Payments		(59)	(16)	(75)
Transfers and other		11	(30)	(19)
Changes in consolidated group	5.4	33	16	49
Balance at 31 December 2016 ⁽¹⁾		728	975	1,703

(1) See Note 5.4.

The detail of provisions for decommissioning costs by type of plant is as follows:

Millions of Euros

	Notes	31 December 2017	31 December 2016
Nuclear power plants	3a and 6	538	567
Other plants		298	299
Dismantling of meters		94	74
Decommissioning of mines		27	35
TOTAL		957	975

Litigation and arbitration

At the date of authorisation for issue of these Consolidated Financial Statements, the main litigation and arbitration proceedings involving ENDESA companies were as follows:

- On 21 November 2000 an arbitral award was handed in down in the case filed by Energía XXI Energías Renováveis against ENEL Green Power España, S.L.U. (EGPE), ruling that the termination of the agency contract signed by the two parties for the sale of turbines to wind farms in Portugal and Brazil was illegal and

instructing ENEL Green Power España, S.L.U. (EGPE) to pay Energía XXI Energías Renováveis: i) legal costs, ii) Euros 50,000, iii) lost profits. On 27 December 2000, ENEL Green Power España, S.L.U. (EGPE) appealed to the Civil Court of First Instance of Lisbon for the arbitral award to be deemed void. On 6 October 2005, the Court rejected the appeal lodged by ENEL Green Power España, S.L.U. (EGPE). On 17 January 2013, the Appeal Court, in response to the appeal filed by ENEL Green Power España, S.L.U. (EGPE), ruled that the proceedings of First Instance be repeated, including the evidence phase. The proceeding is pending a decision. Meanwhile, on 15 September 2005, Energía XXI Energías Renováveis file a suit against ENEL Green Power España, S.L.U. (EGPE) to oblige the latter to pay the amounts required under the arbitral award handed down on 21 November 2000 (Euros 546 million in loss of profits). This proceeding has been suspended until the validity of the award is established.

- Two distinct legal actions are ongoing against ENDESA Distribución Eléctrica, S.L.U. in respect of forest fires in Catalonia. These actions could give rise to an obligation to settle miscellaneous claims for damages of a combined value of around Euros 24 million.
- On 8 May 2008, a decision was made on the motion filed by ENDESA, S.A. at the Spanish Supreme Court to quash a ruling by the Spanish High Court rendering null and void the Order of 29 October 2002 regulating the competition transition costs (CTC) for 2001, passed in the appeal for judicial review no. 825/2002 filed by Iberdrola, S.A. The Supreme Court dismissed ENDESA, S.A.'s motion to quash the ruling from the High Court. Implementation of this decision is not expected to have any material economic effect for ENDESA, S.A., among other reasons because the ruling did not mention any possible amounts of competition transition costs, but merely stated that, in view of the total amount of book capital gains obtained by ENDESA, S.A. from the sale of Electra de Viesgo, S.L., there would be some capital gains in relation to the competition transition costs, but neither this ruling nor the Supreme Court appeal ruling stated any amount on which calculation of the potential impact on ENDESA, S.A. could be based.
- By order of the Ministry of the Environment and Rural and Marine Affairs dated 17 June 2008, ENDESA Generación, S.A.U., harmed by its inability to implement the Jánovas dam and the termination of the three hydroelectric facilities associated with this work, was awarded compensation to pay the concession holder for the expenses incurred, including interest at the legal interest rate, for the purpose of which an agreement would be drafted for the full or partial reimbursement of the concession holder of the extension of the Cinqueta concession at the Lafortunada plant (which had expired on 12 July 2007). However, the resolution handed down by the Director General for Water on 15 June 2012, ordered that the termination proceedings for the Lafortunada-Cinqueta concession be investigated and required the Confederación Hidrográfica del Ebro (CHE) to justify the expenses incurred in relation to the Jánovas facilities, in order to ensure the compensation received by the concession holder was the most appropriate for the public interest. ENDESA Generación, S.A.U. filed an appeal against this ruling with the Secretary of State and the Environment requesting the temporary suspension of these proceedings, which would have been carried out in accordance with prevailing legislation, on the grounds that at that date no decision had been made on the appeal nor had the suspension been rejected. Nonetheless, on 22 December 2017, ENDESA Generación, S.A.U. was informed of the Resolution passed by the Ministry of Agriculture and Fishing, Food and the Environment of 14 December 2017, which declared the concession to be extinguished and ordered the Salto de Lafortunada-Cinqueta hydroelectric facility to be reverted to the state. ENDESA Generación, S.A.U. has filed an application for judicial review was filed with the Regional Appeal Court of Madrid against the implied rejection of the appeal filed against the Resolution handed down by the Director General for Water on 15 June 2012, in addition to an application for judicial review before the corresponding High Court against the Resolution of the Ministry of Agriculture and Fishing, Food and the Environment of 14 December 2017, that must be substantiated using the appropriate channels.
- On 11 May 2009, the Ministry for Energy, Tourism and Digital Agenda issued an order imposing four distinct fines, to a combined value of Euros 15 million, on ENDESA Generación, S.A.U. as the operator of the nuclear plant Ascó I, in connection with a radioactive particle leak in December 2007, on the basis that the company had committed four serious violations contrary to the Nuclear Energy Act 1964 (Law 25/1964) of 29 April. This Order was appealed against before the High Court, and on 1 December 2009 it ruled to stay the execution of the decision under challenge. ENDESA paid into court a bank guarantee covering the value of the fine (Euros 15 million). At the date of authorisation of these Consolidated Financial Statements, the Spanish High Court has suspended the appeal proceedings under its ruling of 6 April 2011, for as long as the decision on the

criminal proceedings 111/2011 remain pending at the Court of First Instance no. 1 in Gandesa (Tarragona). An Order dated 13 June 2016 enforced the continued suspension of the case until a final decision is handed down on the criminal proceedings. In addition, the Director General of Energy Policy and Mines imposed two fines of a combined value of Euros 90 thousand for minor infringements relating to the same incidents. These fines were contested in administrative proceedings, and later in judicial review and with respect to which a) on the Euros 15 thousand appealed against before the Central Judicial Review Court, a Judgement was handed down on 3 July 2012, dismissing the appeal and the penalty was paid, and b) the penalty of Euros 75 thousand was appealed before the Madrid High Court of Justice, judicial review number 189/2010, and the procedure was suspended by the Order of 16 July 2012, due to the existing criminal proceedings, which continued in 2017. With regard to the criminal case, the Court of Gandesa (Tarragona) handed down an Order dated 21 October 2015, whereby it agreed to provisionally dismiss the case. The above Order was appealed by the prosecution and other claimants. Under an Order dated 25 October 2016, the appeals were partially upheld, revoking the dismissal agreed. An appeal was filed before the Provincial Appeal Court by Asociación Nuclear Ascó-Vandellós II, A.I.E. and the defence lawyers of those under investigation, continuing with the criminal case under way, hence the judicial review procedures remain suspended. Under an Order dated 16 March 2017, the Provincial Court ruled on appeal 1119/2016 filed against the Order of October 2016 handed down by the Gandesa (Tarragona) Court, declaring that there was no cause for appeal, on the grounds that for procedural reasons no ruling should be made on the merits of the case; and that the examining judge must first rule whether the previous phase of the investigation is complete, resolve to open a summary procedure or close the case.

- On 22 February 2012, the former CNMC notified ENDESA Distribución Eléctrica, S.L.U. of its decision to impose a penalty of Euros 23 million for alleged unlawful conduct in the electricity facility market, by tendering offers for non-reserved facilities while informing the supply applicant of the technical and economic terms of its application (ENDESA/Fenie affair). On 26 April 2012, the competent Spanish authority imposed a fine of Euros 1 million for a similar case limited to the geographical area of Mallorca (ENDESA/Asinem case). ENDESA Distribución Eléctrica, S.L.U. appealed against the two penalties before the Spanish High Court, which suspended the payment of fines under Orders of 21 May and 3 July 2012. In relation to the first case (ENDESA/Fenie), the High Court dismissed the application for judicial review filed against the fine imposed on ENDESA Distribución Eléctrica, S.L.U., amounting to Euros 23 million. An appeal for judicial review against this ruling was also lodged with the Supreme Court. On 14 July 2017 the Supreme Court partly upheld the appeal submitted citing the lack of proportionality of the fine. The Supreme Court subsequently ruled to annul the resolution with regard to the amount of the fine and ordered to be recalculated by the CNMC. As regards the second item (ENDESA/Asinem), the High Court partially admitted the appeal filed by ENDESA Distribución Eléctrica, S.L.U., ordering the competent authorities to reduce the fine. The authorities submitted an appeal against the ruling. The Supreme Court handed down a sentence on 27 February, 2015, partially admitting the appeal filed by the authorities, and confirming the nullity of the fine ruling, since according to the Supreme Court, the fine was set "based on a calculation method with no legal grounds." Therefore, the Supreme Court ordered the CNMC to recalculate the fine, in accordance with its interpretation of Articles 63 and 64 of Law 15/2007, of July 3 on antitrust disputes.
- In 2013 the Court of First Instance No. 4 of Algeciras (Cádiz) accepted for processing the lawsuit filed by Obras y Construcciones Alcalá Sur, S.L. against ENDESA Distribución Eléctrica, S.L.U. seeking payment to Obras y Construcciones Alcalá Sur, S.L. of an indemnity of Euros 61 million in damages for breach of an agreement signed on 16 January 2006 between the companies. Specifically, the lawsuit is over failure by ENDESA Distribución Eléctrica, S.L.U. to build a substation for the supply of power to the more than 450 residential units owned by the plaintiffs, which prevented the completed development from obtaining occupancy permits. ENDESA Distribución Eléctrica, S.L.U. considers that there is no basis for the claim, since there is no contractual breach and no causal link between ENDESA Distribución Eléctrica, S.L.U.'s actions or omissions and the lack of available land to build the substation, or the delay in the construction of the substation and the delay in obtaining the occupancy permit for the residences. On 29 March 2016, a preliminary hearing was held which scheduled a two-trial session which would take place on 9 and 10 January 2017. On 9 January 2017, the trial was suspended due to the failure to summons the expert witness of the opposing party and for non-compliance with the documents sent to Barrios Municipal Council and to the Ministry for Development, and new date was set for 16 February 2017. On 5 June 2017, a Ruling was handed down fully dismissing the appeal. A counter appeal has been made.

- On 22 January 2014, the President of the Ebro Hydrographic Federation (CHE) issued a resolution requiring ENDESA Generación, S.A.U. to deliver 25% of the power produced at the hydroelectric plants in the Noguera Ribagorçana basin and at the Mequinez and Ribarroja plants along the Ebro river, with effect from 1 January 2012, and approving settlements of Euros 28 million due to the impossibility of enforcing the obligation *in natura* as equivalent compensation for the period from 1 January 2012 to 30 September 2013, ordering further quarterly settlements as a monetary equivalent until ENDESA Generación, S.A.U. was able to offer an individual price for each of the hydroelectric facilities, which it did on 24 February 2014. On 6 June 2014, the CHE required additional payment of Euros 2 million in alternative compensation for the period between 1 October 2013 and 17 December 2013. The CHE's resolution was predicated on article 10 of the 1946 Decree granting the Ribagorçana reserve to the National Institute of Industry, which was subsequently supported by the Decree granting Empresa Nacional Hidroeléctrica Ribagorçana S.A. the reserve of the middle section of the Ebro river between the Escatrón and Flix plants. ENDESA Generación, S.A.U. filed an appeal for judicial review with Section 2 of the Regional Appeal Court of Aragón. The Court rejected the appeals relating to the Ruling of 11 October 2017. ENDESA Generación, S.A.U. has presented documents for an appeal for judicial review against these rulings to be filed with the Supreme Court, the admission of which is currently being assessed.
- The Third Additional Provision of Law 12/2011 of 27 May 2011, governing civil liability for nuclear damage or damage caused by radioactive materials introduces an amendment to Nuclear Energy Law 25/1964, of 29 April, on Nuclear Energy. The amendment contemplates changes in the ownership of operating permits of nuclear plants, establishing that the permit holder or operator of a nuclear power plant must be a single body corporate responsible for the entire facility. The period of one year was established for the adaptation, subject to the presentation of the related adaptation plan, in the cases of ownership of permits for the operation of nuclear plants that do not meet the conditions required. Although on 28 September 2011, ENDESA Generación, S.A.U. properly presented the required plan within the stipulated deadline, the Department of Energy Policy and Mines considered that it did not meet the requirements. The co-owners were asked to prepare an adaptation plan for each of the power plants signed by both. On 25 June 2012, the Ministry of Energy, Tourism and Digital Agency launched disciplinary proceedings against the companies owning the Ascó I, Ascó II, Vandellós II, and Almaraz I and II nuclear plants, based on serious breaches with a possible fine of between Euros 0.3 million and 9 million. The companies filed pleas, and on 14 March, 2013, Ministerial Orders were issued declaring that the companies did not comply with adaptation requirements, representing the commission of a serious offence with a fine of Euros 0.9 million per reactor. ENDESA Generación, S.A.U. appealed the fines set by the High Court, and while the appeals were under consideration, they were temporarily suspended thanks to a deposit made in the amount of Euros 3.6 million. The High Court ruled against the appeal on 25 June, 2014, thereby filing a counter appeal with the Supreme Court on 8 July 2014. On 8 February 2017 the Supreme Court ruled to dismiss the appeal lodged by ENDESA Generación, S.A.U. and that the Company must pay the fine.
- On 15 and 16 April 2014, notification of four resolutions from the Directorate General of Energy Policy and Mines, all dated 10 April 2014, were received. The resolutions brought infringement proceedings against ENDESA Generación, S.A.U. as owner or co-owner of the Almaraz I and Almaraz II, Ascó I and Ascó II and Vandellós nuclear power plants for alleged, continuous breach of the sole transitional provision of Law 25/1964, of 29 April, on Nuclear Power; specifically considering that the Adaptation Plan submitted was not the “appropriate adaptation plan” referred to in the sole transitional provision of Law 25/1964, of 29 April, on Nuclear Power, which did not take place within the time frame stipulated in this provision. On 25 September, 2014, Ministerial Orders were issued which conclude the disciplinary proceedings which contemplate a Euros 3 million fine each. ENDESA Generación, S.A.U., appealed against the four rulings handed down in a joint infringement proceeding before the High Court. After requesting the temporary suspension of the fines, the Spanish High Court accepted the measure on 9 July 2015 after the Euros 9 million guarantee was presented. The procedure was declared to have been concluded on 6 July 2016. On 13 September 2017 the High Court ruled against ENDESA Generación, S.A.U., and the Ministry did not file an appeal against this ruling.
- On 17 July 2014, a resolution issued by the Spanish Markets and Competition Commission (CNMC) was received, proposing a fine on ENDESA Distribución Eléctrica, S.L.U. of Euros 1 million for alleged abuse of its dominant position entailing wrongful receipt of payment for execution of network extension installations for charging an uncontrolled price for the network extension which, according to the CNMC's interpretations of regulations, should be charged according to a scale. On the contrary, ENDESA Distribución Eléctrica, S.L.U.

considers that it applied industry regulations correctly according to numerous judgements handed down which it presented during the process. ENDESA Distribución Eléctrica, S.L.U. appealed this ruling before the High Court on the grounds that it was contrary to the law, and requested temporary suspension of the fine. The High Court temporarily suspended the fine, and the proceedings are still ongoing.

- On 13 April 2015, Endesa Generación, S.A.U. was notified of the settlements issued by the Guadalquivir Hydrographic Federation (CHG) regarding reserve power for electricity generation at the Tranco de Beas, Guadalmellato, Guadalen, Bembezar, Iznajar, Guadalmena, Doña Aldonza and Pedro Marín hydroelectric plants in the second half of 2009 and in the years from 2010 to 2013, for Euros 11 million. Euro 3 million were subsequently notified for 2014. Previously, in December 2014 and January 2015, ENDESA Generación, S.A.U. had received settlements for levies for output of these plants for Euros 3 million for 2011 and 2012, Euros 2 million for 2013 and, subsequently, Euros 1 million for 2014. ENDESA Generación, S.A.U. filed an appeal against all these settlements with the Andalusia Economic-Administrative Court, as indicated thereby, requesting suspension of payment, which was granted. The first appeals were dismissed as invalid as the Regional Economic-Administrative Court was not the correct body to judge this case, and new notifications were to be submitted to ENDESA Generación, S.A.U. in order to appeal before the High Court of Andalusia. The new settlements have been paid within the voluntary period and ENDESA Generación, S.A.U. has filed the relevant appeals for judicial review with the High Court of Andalusia, which are now being processed.
- The administrative authorisations of the Peña del Gato and Valdesamario wind farms held by Energías Especiales del Alto Ulla, S.A.U. (100% owned by ENEL Green Power España, S.L.U. (EGPE)), were invalidated through Supreme Court Decisions of 13 July 2015 and 5 May 2017 respectively on the grounds that the Environmental Impact Statement had not been processed correctly. For the same reasons, the licences granted by the Municipal Councils of Valdesamario and Riello for the Valdesamario wind farm were also invalidated (Ruling of the High Court of Castilla y León dated 26 June 2017 and Ruling of the Regional Appeal Court of León of 30 May 2017, both final) in addition to the permits for the farm's feed-in infrastructures (Ruling of the Regional Appeal Court of León of 30 May 2017, which were contested by its owner, Promociones Energéticas del Bierzo, S.L.U. (100% owned by ENEL Green Power España, S.L.U. (EGPE))), and the appeals have yet to be resolved, in addition to the approval of the SET Ponjos project (Ruling of the Regional Appeal Court 1 of León of 31 May 2017, which was also contested by Promociones Energéticas del Bierzo, S.L.U. and is pending resolution). Turning to the Peña del Gato Wind Farm, a fresh administrative authorisation was secured on 8 May 2017 (after re-processing the project, rectifying the defects in the environmental impact report). The facilities were partly recommissioned on 3 January 2018 (14 machines), and the remaining 11 machines are waiting for an amended permit for the occupation of public forest, in line with new administrative requirements. With regard to the Valdesamario wind farm, currently closed, Energías Especiales del Alto Ulla, S.A.U. also requested the re-processing of the administrative authorisation and will request the cancelled permits be re-assessed. The same procedures will be applied for the feed-in infrastructure and SET Ponjos, if the appeals made by Promociones Energéticas del Bierzo, S.L.U. are not upheld.
- On 11 January 2016, a lawsuit was received in which the Andalusia regional government claimed an indemnity from ENDESA Distribución Eléctrica, S.L.U. related to damages arising from a fire which was allegedly started by a line located in Paraje Gatuna en Alhama de Almería, which caused the destruction of 3,259 hectares of public and private land considered a danger zone. Euros 35 million were demanded for expenses related to fire extinguishing, environmental damages, and losses arising from burnt products. The counterclaim was presented on 5 February 2016. The preliminary hearing was scheduled for 6 March 2017 and the court case will be held on 9, 10 and 13 April 2018.
- The Ruling handed down by the Supreme Court on 24 October 2016 (i) declared the Social Bonus financing system established by article 45.4 of Law 24/2013 to be inapplicable, since it was incompatible with Directive 2009/72/EC and (ii) recognised the right of ENDESA, S.A. to recover the amounts paid for this concept. The authorities submitted an application for dismissal against this ruling and subsequently filed an appeal before the Constitutional Court, which was accepted for proceedings and is currently pending resolution. Further, Order ETU/929/2017, of 28 September, was published in the Official State Gazette (BOE), according to which, in execution of the aforementioned Ruling dated 24 October 2016, the amounts paid in relation to the Social Bonus in 2015 and 2016 must be repaid, with a charge to the system, in addition to any corresponding interest.

Based on similar legal findings to those used in its Ruling of 21 October 2016, in its Ruling of 4 December 2017, the Supreme Court dismissed the counter appeal submitted by ENDESA, S.A. (i) declaring Order IET/350/2014, of 7 March, to be invalid with regard to the funding percentages of the Social Bonus in 2014, and (ii) recognising the right of ENDESA, S.A. to receive compensation for this concept. The authorities submitted an application for dismissal against this ruling which is currently pending resolution by the Supreme Court. Further, Order ETU/1288/2017, of 22 December, was published, according to which, in execution of the aforementioned Ruling dated 21 October 2016, the amounts paid in relation to the Social Bonus in 2014 must be repaid, with a charge to the system, in addition to any corresponding interest (see Notes 4 and 26.3).

- In relation to the Extremadura Eco-tax, an appeal has been lodged against the settlement claimed for 2006-2017 under the Government of Extremadura's Law 8/2005, on Taxation of Facilities Affecting the Environment in the Autonomous Community of Extremadura. The appeal argues that this is unconstitutional, and that one of the key elements required for the tax is absent. With regard to the former, on 16 February 2015, the Constitutional Court, in a lawsuit lodged by Gas Natural Fenosa similar to ENDESA Generación, S.A.U.'s declared the tax to be unconstitutional. On 11 June 2015, the Supreme Court upheld the appeal filed for 2006. On 29 January 2016, the Regional Appeal Court of Extremadura handed down a favourable Judgement for 2007, which is now definitive. On 23 June 2016, the Regional Appeal Court of Extremadura received notification of a favourable sentence for 2008, which is now definitive. At 23 December 2016, notification was received of the Judgement for 2009, in which the Regional Appeal Court of Extremadura dismissed the cassation appeal filed by Extremadura Council, upholding Endesa Generación S.A.U.'s claims to cancel settlement in this year. On 3 November 2015, the Supreme Court examined another question of unconstitutionality regarding Iberdrola, S.A.'s 2012 Eco-tax. The accounting income deriving from the favorable judgments for the years 2006 to 2008 was recorded in ENDESA Generación, S.A.U. in 2015 and the one relating to 2009 was registered in 2016. The collection rights corresponding to the years 2006 to 2009 have been canceled by compensation against the payment of taxes for the years 2016 and 2017. A success in the 2010 to 2017 processes would result in an income of Euros 249 million (Euros 217 million in tax and Euros 32 million in interests).
- In 2015, the tax authorities notified the agreement for the commencement of review procedures at ENEL Green Power España S.L.U. (EGPE) in relation to (i) Corporate Income Tax (Individual and Group Fiscal), for 2010 to 2013, VAT (May 2011 to December 2013), and Personal Income Tax (IRPF) withholdings from employees, professional services, dividends and interest, income obtained from non-residents (from May 2011 to December 2013), and on the third instalment payment of the Tax Group for 2015. It also notified a second agreement regarding the commencement of review proceedings with ENEL Unión Fenosa Renovables, S.A. (merged by ENEL Green Power España, S.L.U. (EGPE) in 2011, in relation to 2011 Corporate Income Tax. In June 2017, the Tax Authorities sent the liquidation agreements on the Corporate Tax returns signed under protest, confirming these agreements insofar as the most significant regularisations addressed in the initial contested returns. On 20 July 2017, ENEL Green Power España, S.L.U. (EGPE) was informed of the infringement proceedings opened in relation to the third instalment payment for 2015 and the relevant allegations were presented to the Technical Office in August. On 4 January 2018, a ruling was made on the infringement proceedings confirming the proposed penalty initially settled.
- On 6 July 2017, ENEL Green Power España, S.L.U. (EGPE) submitted the corresponding economic-administrative claims vis-à-vis agreements referring to Corporate Tax, except the economic-administrative claims relating to the penalty imposed in relation to the third instalment payment for 2015, that was presented on 30 January 2018. It is considered that the liabilities potentially resulting from new administrative proceedings brought against the aforementioned settlement agreements will not materially affect the Consolidated Financial Statements of ENDESA (see Notes 3n and 5.4).

The Directors of the Company consider that the provisions recognised in the Consolidated Financial Statements adequately cover the risks relating to litigation, arbitration and other matters referred to in this Note, and do not expect these issues to give rise to any liability not already provided for.

Given the nature of the risks covered by these provisions, it is impracticable to determine a reasonable timetable of payment dates, if any.

Payments made to settle litigation in 2017 and 2016 came to Euros 13 million and Euros 49 million, respectively.

18. Interest-bearing loans and borrowings

18.1. Current and non-current interest-bearing loans and borrowings

Details of current and non-current interest-bearing loans and borrowings on the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros

Notes	31 December 2017				
	Nominal value	Carrying amount		Total	Fair value
		Non-current	Current		
Bonds and other marketable securities	916	35	889	924	924
Bank borrowings	910	892	18	910	943
Other borrowings ⁽¹⁾	3,546	3,475	71	3,546	4,080
Total interest-bearing loans and borrowings excluding derivatives	5,372	4,402	978	5,380	5,947
Derivatives 19.3	113	12	-	12	12
TOTAL 19	5,485	4,414	978	5,392	5,959

(1) Includes finance leases amounting to Euros 452 million (non-current) and Euros 23 million (current) (see Note 9.1).

Millions of Euros

Notes	31 December 2016				
	Nominal value	Carrying amount		Total	Fair value
		Non-current	Current		
Bonds and other marketable securities	1,015	57	968	1,025	1,023
Bank borrowings	717	650	68	718	747
Other borrowings ⁽¹⁾	3,607	3,499	108	3,607	4,252
Total interest-bearing loans and borrowings excluding derivatives	5,339	4,206	1,144	5,350	6,022
Derivatives 19.3	127	17	-	17	17
TOTAL 19	5,466	4,223	1,144	5,367	6,039

(1) Includes finance leases amounting to Euros 474 million (non-current) and Euros 23 million (current) (see Note 9.1).

At 31 December 2017 and 2016, the detail of interest-bearing loans and borrowings by maturity is as follows:

Millions of Euros

	Maturity	Carrying amount at 31 December 2017	Fair value	Current	Non-current	Maturity					Nominal value
						2019	2020	2021	2022	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	19	19	-	19	-	-	-	-	19	12
Floating rate	2019	905	905	889	16	16	-	-	-	-	904
Total		924	924	889	35	16	-	-	-	19	916
Bank borrowings											
Fixed rate	2046	-	-	-	-	-	-	-	-	-	-
Floating rate	2029	910	943	18	892	65	83	95	96	553	910
Total		910	943	18	892	65	83	95	96	553	910
Other borrowings											
Fixed rate	2036	3,494	4,029	33	3,461	23	24	24	24	3,366	3,494
Floating rate	2029	52	51	38	14	-	-	12	1	1	52
Total		3,546	4,080	71	3,475	23	24	36	25	3,367	3,546
TOTAL		5,380	5,947	978	4,402	104	107	131	121	3,939	5,372

Millions of Euros

	Maturity	Carrying amount at 31 December 2016	Fair value	Current	Non-current	Maturity					Nominal value
						2018	2019	2020	2021	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	40	38	-	40	-	-	-	-	40	32
Floating rate	2019	985	985	968	17	-	17	-	-	-	983
Total		1,025	1,023	968	57	-	17	-	-	40	1,015
Bank borrowings											
Fixed rate	2046	21	22	-	21	-	-	-	-	21	21
Floating rate	2029	697	725	68	629	61	62	62	62	382	696
Total		718	747	68	650	61	62	62	62	403	717
Other borrowings											
Fixed rate	2036	3,551	4,195	66	3,485	23	23	24	24	3,391	3,551
Floating rate	2029	56	57	42	14	2	-	2	6	4	56
Total		3,607	4,252	108	3,499	25	23	26	30	3,395	3,607
TOTAL		5,350	6,022	1,144	4,206	86	102	88	92	3,838	5,339

At 31 December 2017 and 2016, the breakdown of gross finance debt before derivatives, by currencies, and the impact of currency hedges, is as follows:

Millions of Euros

	31 December 2017							
	Initial debt structure			Effects of debt coverage ratio	Structure of debt subsequent to coverage		Interest rate	
	Amortised cost	Nominal value	% of total		Amortised cost	% of total	Average interest rate	Effective interest rate
Euro	5,380	5,372	100.00%	-	5,380	100.00%	2.10%	2.10%
Other	-	-	0.00%	-	-	0.00%	-	-
TOTAL	5,380	5,372	100.00%	-	5,380	100.00%	2.10%	2.10%

Millions of Euros

	31 December 2016							
	Initial debt structure			Effects of debt coverage ratio	Structure of debt subsequent to coverage		Interest rate	
	Amortised cost	Nominal value	% of total		Amortised cost	% of total	Average interest rate	Effective interest rate
Euro	5,350	5,339	100.00%	-	5,350	100.00%	2.50%	2.50%
Other	-	-	0.00%	-	-	0.00%	-	-
TOTAL	5,350	5,339	100.00%	-	5,350	100.00%	2.50%	2.50%

The movement in the nominal amount of non-current interest-bearing loans and borrowings excluding derivatives in 2017 and 2016 is as follows:

Millions of Euros

	Nominal amount at 31 December 2016	Repayments and redemptions (Note 33.3)	Changes in scope of consolidation (Note 5)	New borrowings (Note 33.3)	Transfers	Nominal value at 31 December 2017
Bonds and other marketable securities	47	(20)	-	-	-	27
Bank borrowings	649	(46)	-	306	(17)	892
Other borrowings	3,499	(8)	(2)	9	(23)	3,475
TOTAL	4,195	(74)	(2)	315	(40)	4,394

Millions of Euros

	Nominal amount at 31 December 2015	Repayments and redemptions (Note 33.3)	Changes in scope of consolidation (Note 5)	New borrowings (Note 33.3)	Transfers	Nominal amount at 31 December 2016
Bonds and other marketable securities	215	-	-	-	(168)	47
Bank borrowings	676	(114)	115	96	(124)	649
Other borrowings	3,778	(4)	5	13	(293)	3,499
TOTAL	4,669	(118)	120	109	(585)	4,195

The average interest on gross interest-bearing loans and borrowings in 2017 was 2.1% (2.5% in 2016).

18.2. Other matters

18.2.1. Liquidity

As of 31 December 2017, ENDESA's liquidity rose to Euro 3,495 million (Euro 3,620 million at 31 December 2016) as detailed below:

Millions of Euros

	Liquidity	
	31 December 2017	31 December 2016
Cash and cash equivalents	399	418
Unconditional availability in lines of credit ⁽¹⁾	3,096	3,202
TOTAL	3,495	3,620
Coverage of maturities ^{(months) (2)}	29	17

(1) At 31 December 2017 and 2016, Euros 1,000 million were accounted for by the committed and irrevocable line of credit with ENEL Finance International, N.V., with no drawdowns at these dates

(2) Coverage of maturities (n. of months) = maturity period (n. of months) for vegetative debt that could be covered with the liquidity available.

These undrawn credit facilities secure the refinancing of current debt presented in non-current interest-bearing loans and borrowings in the accompanying consolidated statement of financial position (see Notes 3m and 20.4), which amounted to Euros 17 million at 31 December 2017 and 2016.

The amount of these credit facilities, together with the current assets, provides sufficient coverage of ENDESA's short-term payment obligations.

18.2.2. Main Financial Transactions

The main transactions in 2017 were as follows:

- Within the framework of the financial transaction (ENDESA Grid Modernisation) concluded with the European Investment Bank (EIB) in 2014, Tranches B and C (each one of Euros 150 million) were available on 18 January 2017 and 20 February 2017, thus completing the provision of the transaction for a total amount of Euros 600 million. Both provisions are variable, with a 12-year maturity depreciable as of 2021 (see Note 33.3).
- In 2017, ENDESA, S.A. concluded agreements with different financial institutions for the extension to three years with a possibility of extending to five years of most of its credit lines for Euros 1,985 million.
- On 30 June 2017, ENDESA, S.A. successfully renegotiated the conditions of the irrevocable and committed inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000 million, extending its maturity to 30 June 2020 and reducing the margin and fee, applicable if the facility is not used, to 55 b.p. and 18 b.p., respectively. At 31 December 2017, the committed inter-company line of credit had not been drawn on (see Note 35.1.2).
- On 21 December 2017, ENDESA, S.A. subscribed to financing, yet to be paid at the date of preparation of these Consolidated Financial Statements, with the European Investment Bank for the amount of Euros 500 million, maturing in 12 years and offering a three-year grace period.
- On 28 December 2017, ENDESA S.A. renewed the uncommitted inter-company credit facility arranged with ENEL Finance International N.V., for Euros 1,500 million, extending the maturity to 28 December 2018, with the rest of the terms unchanged. At 31 December 2017, this uncommitted inter-company line of credit had not been drawn on (see Note 35.1.2).
- ENDESA has maintained the issuance programme of Euro Commercial Paper (ECP) through International ENDESA, B.V., and the outstanding balance at 31 December 2017 was Euros 889 million, where the renewal is backed by contracted credit lines (see Note 18.2.1).

18.2.3. Financial stipulations

Certain ENDESA companies' loans and borrowings contain the usual covenants in this type of agreement.

At 31 December 2017, neither ENDESA, S.A. nor any of its subsidiaries were in breach of their financial obligations or any obligations that could require early repayment of their liabilities.

ENDESA's directors do not consider that these clauses will change the current/non-current classification in the consolidated statement of financial position at 31 December 2017.

Financial stipulations

The financing agreements of ENDESA, S.A. and International ENDESA B.V., which carry out almost all of ENDESA's financing activity in Spain, contain no obligations whereby failure to maintain certain financial ratios would lead to breach of contract and early termination.

Further, bond issues made by International ENDESA, B.V. under its Global Medium Term Notes programmes and bank financing arranged by ENDESA, S.A. contain the following clauses:

- Negative pledge clauses, whereby neither the issuers nor ENDESA, S.A. may issue mortgages, liens or other encumbrances on their assets to secure certain types of bonds, unless similar guarantees are issued on the bonds in question.
- "Pari Passu" clauses, whereby the debts and guarantees have at least the same status as any other existing or future unsecured or non-subordinated debts issued by ENDESA, S.A. as guarantor, or by the issuers.

In the case of emission bonds issued by International ENDESA B.V. under its Global Medium Term Notes programs (Euros 27 million as of December 31, 2017) these contain:

- Cross-default clauses, whereby debt must be prepaid in the event of default (over and above a certain amount) on the settlement of certain obligations of ENDESA, S.A. as guarantor, or of the issuers.

Credit rating clauses

At 31 December 2017 and 2016, ENDESA, S.A. had entered into financial transactions with the European Investment Bank (EIB), with amounts of Euros 600 million and Euros 300 million paid, respectively, that could require additional guarantees or renegotiation if its credit rating were downgraded to below certain levels (see Note 18.2.2).

Clauses related to the change of control

At 31 December 2017, ENDESA, S.A. has loans and other borrowings from banks and ENEL Finance International, N.V. of approximately Euros 5,738 million, with an outstanding debt of Euros 3,738 million, which might have to be repaid early in the event of a change of control over ENDESA, S.A. (Euros 5,250 million at 31 December 2016, with an outstanding debt of Euros 3,450 million).

Clauses related to the assignment of assets

Part of the debt of ENDESA S.A. includes restrictions if a certain percentage of ENDESA's consolidated assets is surpassed, which varies for the related transactions from 7% to 10%.

Above these ceilings, the restrictions would only apply, in general, if no equivalent consideration is received or if there was a material negative impact on ENDESA, S.A.'s solvency.

The amount of debt affected by these clauses at 31 December 2017 is Euros 738 million (Euros 495 million at 31 December 2016).

Project financing

At 31 December 2017, certain ENDESA subsidiaries operating in the renewable energy business and financed through project finance have a financial debt of Euros 159 million (Euros 178 million at 31 December 2016), which includes the following clauses (see Notes 6.1, 15.1.12 and 36.1):

- These debts and their associated derivatives with a negative net market value of Euros 12 million might have to be settled early as a result of a change of control at ENDESA (Euros 17 million at 31 December 2016).
- Pledges of shares granted as assurance of compliance with obligations under contract to financial institutions for the amount of the outstanding financial debt (see Notes 6.1 and 36.1).

- Restrictions of sales of assets consisting of obtaining the authorisation of most lenders, and in certain cases, of allocating the amount of their sale to repay debt.
- Restrictions in the distribution of profits to shareholders, subject to the fulfilment of certain conditions.
- The obligation to recognise a debt service reserve account (see Note 14).

Clauses related to compliance with ratios

At 31 December 2017, certain ENDESA subsidiaries that operate in the renewable energy business are obliged to comply with specific annual debt servicing coverage ratios (ADSCR). At 31 December 2017, these meet the minimum requirements set down in the financing contracts.

18.2.4. Other matters

At 31 December 2017 and 2016, the estimated interest on gross financial debt, considering the current interest rates on those dates until maturity, is as follows:

Millions of Euros							
Instrument	Total	Gross financial debt at 31 December, 2017					
		2018	2019	2020	2021	2022	Subsequent
Bonds and other marketable securities	10	1	1	1	1	1	5
Bank borrowings	260	26	26	24	22	20	142
Other borrowings	653	94	93	93	93	93	187
TOTAL	923	121	120	118	116	114	334

Millions of Euros							
Instrument	Total	Gross financial debt at 31 December, 2016					
		2017	2018	2019	2020	2021	Subsequent
Bonds and other marketable securities	19	2	3	3	2	2	7
Bank borrowings	322	29	27	26	26	24	190
Other borrowings	748	95	94	94	93	93	279
TOTAL	1,089	126	124	123	121	119	476

At 31 December 2017 and 2016, no issues were convertible into Company shares or grant holders privileges or rights that could, in certain cases, make the issues convertible into shares.

19. Financial instruments

The classification of financial instruments on the consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

Millions of Euros					
	Notes	31 December 2017		31 December 2016	
		Non-current	Current	Non-current	Current
Financial asset instruments					
Non-current financial assets		769	764	712 ⁽¹⁾	363
Trade and other receivables	13	-	2,791	-	2,951
Cash and cash equivalents	14	-	399	-	418
TOTAL	19.1	769	3,954	712	3,732
Financial liability instruments					
Non-current financial debt	18	4,414	978	4,223	1,144
Other non-current liabilities	21	646	-	601	-
Trade payables and other current liabilities	23	-	5,411	-	4,960
TOTAL	19.2	5,060	6,389	4,824	6,104

(1) See Note 5.4.

19.1. Classification of non-current and current financial assets

The classification of financial asset instruments on the consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

Millions of Euros					
	Notes	31 December 2017		31 December 2016	
		Non-current	Current	Non-current	Current
Loans and receivables	19.1.1	755	3,954	695 ⁽¹⁾	3,730
Available-for-sale financial assets	19.1.2	6	-	8	-
Hedging derivatives	19.3	8	-	9	2
TOTAL		769	3,954	712	3,732

(1) See Note 5.4.

Movements in non-current financial asset instruments in 2017 and 2016 are as follows:

Millions of Euros							
	Balance at 31 December 2016 ⁽¹⁾	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity ⁽²⁾	Transfers and other	Changes in consolidated group ^(Note 5)	Balance at 31 December 2017
Loans and receivables	697	168	(35)	23	(97)	1	757
Available-for-sale financial assets	31	-	(23)	-	(1)	-	7
Derivatives	9	-	-	-	(1)	-	8
Impairment losses	(25)	-	22	-	-	-	(3)
TOTAL	712	168	(36)	23	(99)	1	769

(1) See Note 5.4.

(2) Recognised in "Equity: other comprehensive income or Equity: non-controlling interests, as appropriate.

Millions of Euros							
	Balance at 31 December 2015	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity ⁽¹⁾	Transfers and other	Changes in consolidated group ^(Note 5)	Balance at 31 December 2016 ⁽²⁾
Loans and receivables	613	141	(64)	(1)	(40)	48	697
Available-for-sale financial assets	30	-	-	-	-	1	31
Derivatives	11	-	(1)	-	(1)	-	9
Impairment losses	(25)	-	-	-	-	-	(25)
TOTAL	629	141	(65)	(1)	(41)	49	712

(1) Recognised in "Equity: other comprehensive income or Equity: non-controlling interests, as appropriate.

(2) See Note 5.4.

Details of non-current financial assets by maturity at 31 December 2017 and 2016 are as follows:

Millions of Euros		
	31 December 2017	31 December 2016 ⁽¹⁾
Between 1 and 3 years	169	92
Between 3 and 5 years	10	11
More than five years	590	609
TOTAL	769	712

(1) See Note 5.4.

19.1.1. Loans and receivables

Details of loans and receivables by type at 31 December 2017 and 2016 are as follows:

Millions of Euros					
	Notes	31 December 2017		31 December 2016	
		Non-current	Current	Non-current	Current
Cash and cash equivalents	14	-	399	-	418
Trade receivables	13	-	2,631	-	2,718
Non-financial derivatives	13 and 19.3	31	160	31	233
Financial assets		724	764	664	361
Financing of the revenue shortfall from regulated activities in Spain and other regulated remuneration	4	-	222	-	258
Compensation for extra-costs in Non-mainland Territories generation (TNP)	4	-	304	-	-
Guarantee deposits		424	-	424	-
Loans to employees		22	11	22	9
Loans to associates, joint ventures and joint operation entities	35.2	66	5	67	5
Remuneration of the distribution activity	4	106	70	38	32
Incentives to invest in renewable energies	4	3	1	15	-
Other financial assets		103	151	98	57
TOTAL		755	3,954	695 ⁽¹⁾	3,730

(1) See Note 5.4.

Financing of the revenue shortfall from regulated activities in Spain

On 13 December, 2014, Royal Decree 1054/2014, of 12 December, was published in the Official State Gazette (BOE) regulating the procedure for the assignment of collection rights of the electricity system deficit for 2013 and implementing the methodology for calculating the rate at which the collection rights of this deficit and, if applicable, previous negative timing mismatches, will accrue interest (see Note 4).

At 31 December 2017, the amount of the collection right associated with the shortfall for temporary adjustments was Euros 222 million, recognised under “Current financial assets” on the consolidated statement of financial position (2016: Euros 258 million).

In 2017 and 2016, the financing of the revenue shortfall from regulated activities in Spain did not accrue interest, since the entirety of the amount pending collection during both years corresponds to transitory variations.

Compensations for extra-costs of Non-mainland Territories generation (TNP)

At 31 December 2017 and 2016, in application of the regulation described in Note 4, the amounts registered totalled Euros 304 million and Euros 296 million, recognised under “Current financial assets” and “Trade and other payables” (see Note 23), respectively.

Guarantee deposits

At 31 December 2017 and 2016, Guarantees and deposits mainly include guarantees and deposits received from customers in Spain at the date of signing contracts in guarantee of electricity supply, and which are also recognised as other non-current liabilities in the consolidated statement of financial position as they have been deposited with the pertinent public administrations in accordance with prevailing standards in Spain (see Note 21).

Loans to associates, joint ventures and joint operation entities

Details by maturity of non-current and current loans to associates, joint ventures and joint operation entities at 31 December 2017 and 2016 are as follows:

Millions of Euros									
Notes	Balance at 31 December 2017	Current maturity 2018	Non-current maturities						Total
			2019	2020	2021	2022	Subsequent		
Euros	71	5	2	3	1	1	59		66
Foreign currency	-	-	-	-	-	-	-		-
TOTAL	71	5	2	3	1	1	59		66

Millions of Euros									
Notes	Balance at 31 December 2016	Current maturity 2017	Non-current maturities						Total
			2018	2019	2020	2021	Subsequent		
Euros	72	5	-	-	1	-	66		67
Foreign currency	-	-	-	-	-	-	-		-
TOTAL	72	5	-	-	1	-	66		67

These loans earned interest at an average annual rate in 2017 and 2016 of 3.38% and 3.45%, respectively.

Remuneration of the distribution activity

At 31 December 2017, in application of the regulation described in Note 4, the amounts registered totalled Euros 106 million and Euros 70 million, recognised under "Non-current financial assets" and "Current financial assets" respectively (Euros 38 million and Euros 32 million at 31 December 2016).

Incentives for investment in renewable energies

At 31 December 2017, in application of the regulations described in Note 4, the amounts recorded amounted to Euros 3 million and Euros 1 million recorded under the heading "Non-current Financial Assets" and "Current Financial Assets", respectively (Euros 15 million and Euros 0 million, respectively, at 31 December 2016).

19.1.2. Available-for-sale financial assets

At 31 December 2017 and 2016, available-for-sale financial assets corresponded to investments in other companies amounting to Euros 6 million and Euros 8 million, respectively.

At 31 December 2017, valuation adjustments on available-for-sale financial investments amounted to Euros 1 million (Euros 22 million at 31 December 2016). The individual amount of the rest of the investments recognised under this item is not significant.

19.1.3. Financial investment commitments

At 31 December 2017, ENDESA had not entered into any agreements that included commitments to make financial investments of a significant amount.

19.2. Classification of non-current and current financial liabilities

The classification of financial liability instruments on the consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

Millions of Euros					
Notes	31 December 2017		31 December 2016		
	Non-current	Current	Non-current	Current	
Debts and payables	5,013	6,389	4,729	6,104	19.2.1
Financial liabilities held for trading	12	-	17	-	
Other financial liabilities at fair value through profit or loss ⁽¹⁾	35	-	78	-	
TOTAL	5,060	6,389	4,824	6,104	

(1) Relates entirely to financial liabilities embedded in a fair value hedge since the contract date.

19.2.1. Debts and payables

Details of debts and payables by type at 31 December 2017 and 2016 are as follows:

Millions of Euros

	Notes	31 December 2017		31 December 2016	
		Non-current	Current	Non-current	Current
Bonds and other marketable securities	18	-	889	-	968
Bank borrowings	18	892	18	629	68
Other borrowings	18	3,475	71	3,499	108
Trade and other payables	23	-	5,283	-	4,848
Other non-current	21	612	-	589	-
Non-financial derivatives	19.3, 21 and 23	34	128	12	112
TOTAL		5,013	6,389	4,729	6,104

19.3. Derivative financial instruments

Applying the risk management policy described in Note 20, ENDESA mainly uses interest rate, foreign currency and physical hedging derivatives.

ENDESA does not present information on embedded derivatives separately, as the economic characteristics and risks incidental to these derivatives strictly relate to the host contracts.

Details of the valuation of derivative financial instruments at 31 December 2017 and 2016 are as follows:

Millions of Euros

	31 December 2017			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Debt derivatives	8	-	12	-
Interest rate hedges	8	-	-	-
Fair value hedges	8	-	-	-
Derivatives not designated as hedging instruments	-	-	12	-
Physical derivatives	31	160	34	127
Foreign currency hedges	-	1	9	25
Cash flow hedges	-	1	9	25
Price hedges	23	96	21	50
Cash flow hedges	23	96	21	50
Derivatives not designated as hedging instruments	8	63	4	52
Other derivatives	-	-	-	1
TOTAL	39	160	46	128

Millions of Euros

	31 December 2016			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Debt derivatives	9	2	17	-
Interest rate hedges	9	2	-	-
Fair value hedges	9	2	-	-
Derivatives not designated as hedging instruments	-	-	17	-
Physical derivatives	31	232	12	112
Foreign currency hedges	-	7	-	-
Cash flow hedges	-	7	-	-
Price hedges	-	69	-	-
Cash flow hedges	-	69	-	-
Derivatives not designated as hedging instruments	31	156	12	112
Other derivatives	-	1	-	-
TOTAL	40	235	29	112

The breakdown of derivatives contracted, their fair values and maturities at 31 December 2017 and 2016 is as follows:

Millions of Euros

Derivatives	31 December 2017							
	Fair Value	Notional amount						
		2018	2019	2020	2021	2022	Subsequent	Total
FINANCIAL DERIVATIVES	(4)	-	15	77	-	36	12	140
Interest rate hedges	8	-	15	-	-	-	12	27
Fair value hedges	8	-	15	-	-	-	12	27
Swaps	8	-	15	-	-	-	12	27
Derivatives not designated as hedging instruments	(12)	-	-	77	-	36	-	113
Swaps	(12)	-	-	77	-	36	-	113
PHYSICAL DERIVATIVES	29	3,145	1,246	149	1	-	-	4,541
Exchange rate	(37)	1,105	510	84	1	-	-	1,700
Designated as hedges	(34)	793	468	83	1	-	-	1,345
Futures	(34)	793	468	83	1	-	-	1,345
Not designated as hedges	(3)	312	42	1	-	-	-	355
Futures	(3)	312	42	1	-	-	-	355
Price	66	2,040	736	65	-	-	-	2,841
Designated as hedges	48	1,137	626	62	-	-	-	1,825
Swaps	48	1,137	626	62	-	-	-	1,825
Not designated as fuel hedges	17	448	62	3	-	-	-	513
Swaps	14	374	62	3	-	-	-	439
Others	3	74	-	-	-	-	-	74
Not designated as electricity hedges	1	455	48	-	-	-	-	503
Swaps	1	441	48	-	-	-	-	489
Others	-	14	-	-	-	-	-	14
TOTAL	25	3,145	1,261	226	1	36	12	4,681

Millions of Euros

Derivatives	Fair Value	31 December 2016						
		Notional amount						Total
		2017	2018	2019	2020	2021	Subsequent	
FINANCIAL DERIVATIVES	(6)	48	-	15	83	-	49	195
Interest rate hedges	11	41	-	15	-	-	12	68
Fair value hedges	11	41	-	15	-	-	12	68
Swaps	11	41	-	15	-	-	12	68
Derivatives not designated as hedging instruments	(17)	7	-	-	83	-	37	127
Swaps	(17)	7	-	-	83	-	37	127
PHYSICAL DERIVATIVES	140	2,618	379	73	1	-	-	3,071
Exchange rate	27	516	104	18	-	-	-	638
Designated as hedges	8	266	5	-	-	-	-	271
Futures	8	266	5	-	-	-	-	271
Not designated as hedges	19	250	99	18	-	-	-	367
Futures	19	250	99	18	-	-	-	367
Price	113	2,102	275	55	1	-	-	2,433
Designated as hedges	69	139	-	-	-	-	-	139
Swaps	69	139	-	-	-	-	-	139
Not designated as fuel hedges	81	1,161	216	40	1	-	-	1,418
Swaps	63	897	208	40	1	-	-	1,146
Others	18	264	8	-	-	-	-	272
Not designated as electricity hedges	(37)	802	59	15	-	-	-	876
Swaps	(37)	801	43	15	-	-	-	859
Others	-	1	16	-	-	-	-	17
TOTAL	134	2,666	379	88	84	-	49	3,266

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk undertaken by ENDESA, since these amounts only constitute the basis on which the derivative settlement calculations were made.

The amounts recognised in the consolidated income statement in relation to the derivatives and hedged items of fair value hedges are as follows:

Millions of Euros

	2017		2016	
	Revenue	Expenses	Revenue	Expenses
Hedged items	3	-	1	-
Derivatives ⁽¹⁾	-	2	-	1
TOTAL	3	2	1	1

(1) Without settlement.

The consolidated income statement did not reflect any amounts in respect of the ineffective portion of cash flow hedges in 2017 and 2016.

There was no discontinuation of hedge accounting of derivatives initially designated as cash flows in 2017 and 2016.

19.4. Net gains and losses on non-current and current financial assets and liabilities by category

19.4.1. Net gains and losses on financial assets by category

The net gains and losses on financial assets by categories at 31 December 2017 and 2016 are as follows:

Millions of Euros

	2017						TOTAL
	Financial assets held for trading	Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	
Net gains/(losses) in the consolidated income statement	5	3	-	(273) ⁽¹⁾	-	109	(156)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-	(51)	(51)
TOTAL	5	3	-	(273)	-	58	(207)

(1) Includes net impairment losses of Euros 182 million (see Notes 13, 29 and 34.2).

Millions of Euros

	2016						TOTAL
	Financial assets held for trading	Other financial assets at fair value through profit and loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	
Net gains/(losses) in the consolidated income statement	4	1	-	(135) ⁽¹⁾	-	25	(105)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-	104	104
TOTAL	4	1	-	(135)	-	129	(1)

(1) Includes net impairment losses of Euros 104 million (see Notes 13, 29 and 34.2).

19.4.2. Net gains and losses on financial assets by category

The net gains and losses on financial liabilities by categories at 31 December 2017 and 2016 are as follows:

Millions of Euros

	2017				TOTAL
	Financial liabilities held for trading	Other financial liabilities at fair value through profit and loss	Debts and payables	Hedging derivatives	
Net gains/(losses) in the consolidated income statement	2	-	(96) ⁽¹⁾	(8)	(102)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-
TOTAL	2	-	(96)	(8)	(102)

(1) Includes debt interest of Euros 133 million (see Note 30).

Millions of Euros

	2016				TOTAL
	Financial liabilities held for trading	Other financial liabilities at fair value through profit and loss	Debts and payables	Hedging derivatives	
Net gains/(losses) in the consolidated income statement	-	-	1 ⁽¹⁾	(3)	(2)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-
TOTAL	-	-	1	(3)	(2)

(1) Includes debt interest of Euros 133 million (see Note 30).

19.5. Offsetting of non-current and current financial assets and liabilities

The detail of non-current and current financial assets and liabilities set off at 31 December 2017 and 2016 is as follows:

Millions of Euros

31 December 2017							
	Note	Gross amount of financial assets	Amount set off	Net amount of financial assets presented on the financial statements	Amounts in netting arrangements not set off		Net amount
					Financial instrument	Financial collateral	
Non-current financial assets	19.1	769	-	769	(27)	-	742
Derivatives	19.3	31	-	31	(27)	-	4
Total non-current Assets		769	-	769	(27)	-	742
Trade and other receivables ⁽¹⁾	13	2,791	-	2,791	(217)	-	2,574
Trade receivables		2,732	-	2,732	(141)	-	2,591
Non-financial derivatives	19.3	160	-	160	(76)	-	84
Current financial assets	19.1	764	-	764	-	(7)	757
Other financial assets		151	-	151	-	(7)	144
Total current assets		3,555	-	3,555	(217)	(7)	3,331

(1) Does not include balances with public administrations.

Millions of Euros

31 December 2016							
	Note	Gross amount of financial assets	Amount set off	Net amount of financial assets presented on the financial statements	Amounts in netting arrangements not set off		Net amount
					Financial instrument	Financial collateral	
Non-current financial assets ⁽¹⁾	19.1	712	-	712	(18)	-	694
Derivatives	19.3	31	-	31	(18)	-	13
Total non-current assets		712	-	712	(18)	-	694
Trade and other receivables ⁽²⁾	13	2,951	-	2,951	(219)	-	2,732
Trade receivables		2,684	-	2,684	(119)	-	2,565
Non-financial derivatives	19.3	233	-	233	(100)	-	133
Current financial assets	19.1	363	-	363	-	(16)	347
Other financial assets		57	-	57	-	(16)	41
Total current assets		3,314	-	3,314	(219)	(16)	3,079

(1) See Note 5.4.

(2) Does not include balances with public administrations.

Millions of Euros

31 December 2017							
	Note	Gross amount of financial liabilities	Amount set off	Net amount of financial liabilities presented on the financial statements	Amounts in netting arrangements not set off		Net amount
					Financial instrument	Financial collateral	
Non-current interest-bearing loans and borrowings	18.1	4,414	-	4,414	-	-	4,414
Other borrowings		3,475	-	3,475	-	-	3,475
Other non-current liabilities	21	646	-	646	(24)	-	622
Non-current derivatives	19.3	34	-	34	(24)	-	10
Total non-current liabilities		5,060	-	5,060	(24)	-	5,036
Trade and other payables ⁽¹⁾	23	5,411	-	5,411	(218)	-	5,193
Suppliers and other payables		4,071	-	4,071	(141)	-	3,930
Non-financial derivatives	19.3	128	-	128	(77)	-	51
Current interest-bearing loans and borrowings	18.1	978	-	978	-	(8)	970
Total current liabilities		6,389	-	6,389	(218)	(8)	6,163

(1) Does not include balances with public administrations.

Millions of Euros

31 December 2016							
	Note	Gross amount of financial liabilities	Amount set off	Net amount of financial liabilities presented on the financial statements	Amounts in netting arrangements not set off		Net amount
					Financial instrument	Financial collateral	
Non-current interest-bearing loans and borrowings	18.1	4,223	-	4,223	-	-	4,223
Other borrowings		3,499	-	3,499	-	-	3,499
Other non-current liabilities	21	601	-	601	(11)	-	590
Non-current derivatives	19.3	12	-	12	(11)	-	1
Total non-current liabilities		4,824	-	4,824	(11)	-	4,813
Trade and other payables ⁽¹⁾	23	4,960	-	4,960	(208)	-	4,752
Suppliers and other payables		3,429	-	3,429	(119)	-	3,310
Non-financial derivatives	19.3	112	-	112	(89)	-	23
Current interest-bearing loans and borrowings	18.1	1,144	-	1,144	-	(34)	1,110
Total current liabilities		6,104	-	6,104	(208)	(34)	5,862

(1) Does not include balances with public administrations.

19.6. Fair value measurement

19.6.1. Fair value measurement of categories of financial assets

At 31 December 2017 and 2016 the non-current and current financial assets measured at fair value in the consolidated statement of financial position by fair value hierarchy level are as follows:

Millions of Euros				
	31 December 2017			
	Fair value	Level 1	Level 2	Level 3
Debt derivatives	8	-	8	-
Interest rate hedges	8	-	8	-
Fair value hedges	8	-	8	-
Physical derivatives	31	3	28	-
Price hedges	23	-	23	-
Cash flow hedges	23	-	23	-
Derivatives not designated as hedging instruments	8	3	5	-
Total non-current assets	39	3	36	-
Debt derivatives	-	-	-	-
Interest rate hedges	-	-	-	-
Fair value hedges	-	-	-	-
Physical derivatives	160	21	139	-
Foreign currency hedges	1	-	1	-
Cash flow hedges	1	-	1	-
Price hedges	96	1	95	-
Cash flow hedges	96	1	95	-
Derivatives not designated as hedging instruments	63	20	43	-
Other derivatives	-	-	-	-
Total current assets	160	21	139	-

Millions of Euros				
	31 December 2016			
	Fair value	Level 1	Level 2	Level 3
Debt derivatives	9	-	9	-
Interest rate hedges	9	-	9	-
Fair value hedges	9	-	9	-
Physical derivatives	31	2	29	-
Price hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Derivatives not designated as hedging instruments	31	2	29	-
Total non-current assets	40	2	38	-
Debt derivatives	2	-	2	-
Interest rate hedges	2	-	2	-
Fair value hedges	2	-	2	-
Physical derivatives	232	18	214	-
Foreign currency hedges	7	-	7	-
Cash flow hedges	7	-	7	-
Price hedges	69	-	69	-
Cash flow hedges	69	-	69	-
Derivatives not designated as hedging instruments	156	18	138	-
Other derivatives	1	-	1	-
Total current assets	235	18	217	-

There were no level transfers among these financial assets in 2017 and 2016.

19.6.2. Fair value measurement of categories of assets not measured at fair value

At 31 December 2017 and 2016, the non-current assets not measured at fair value in the consolidated statement of financial position, but whose fair value is disclosed in the notes to these Consolidated Financial Statements by fair value hierarchy level are as follows:

Millions of Euros					
Notes	31 December 2017				
	Fair value	Level 1	Level 2	Level 3	
Investment property	3b and 7.1	16	-	-	16

Millions of Euros					
Notes	31 December 2016				
	Fair value	Level 1	Level 2	Level 3	
Investment property	3b and 7.1	59	-	-	59

19.6.3. Fair value measurement of categories of financial liabilities

At 31 December 2017 and 2016, the non-current and current financial liabilities measured at fair value on the consolidated statement of financial position by fair value hierarchy level are as follows:

Millions of Euros				
	31 December 2017			
	Fair value	Level 1	Level 2	Level 3
Bank borrowings	-	-	-	-
Bonds and other marketable securities	35	-	35	-
Debt derivatives	12	-	12	-
Derivatives not designated as hedging instruments	12	-	12	-
Physical derivatives	34	1	33	-
Foreign currency hedges	9	-	9	-
Cash flow hedges	9	-	9	-
Price hedges	21	-	21	-
Cash flow hedges	21	-	21	-
Derivatives not designated as hedging instruments	4	1	3	-
Total non-current liabilities	81	1	80	-
Debt derivatives	-	-	-	-
Physical derivatives	127	25	102	-
Foreign currency hedges	25	-	25	-
Cash flow hedges	25	-	25	-
Price hedges	50	10	40	-
Cash flow hedges	50	10	40	-
Derivatives not designated as hedging instruments	52	15	37	-
Other hedges	1	-	1	-
Total current liabilities	128	25	103	-

Millions of Euros				
	31 December 2016			
	Fair value	Level 1	Level 2	Level 3
Bank borrowings	21	-	21	-
Bonds and other marketable securities	57	-	57	-
Debt derivatives	17	-	17	-
Derivatives not designated as hedging instruments	17	-	17	-
Physical derivatives	12	-	12	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Price hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Derivatives not designated as hedging instruments	12	-	12	-
Total non-current liabilities	107	-	107	-
Debt derivatives	-	-	-	-
Physical derivatives	112	36	76	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Price hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Derivatives not designated as hedging instruments	112	36	76	-
Other hedges	-	-	-	-
Total current liabilities	112	36	76	-

There were no level transfers among these financial liabilities in 2017 and 2016.

19.6.4. Fair value measurement of categories of financial liabilities not measured at fair value

At 31 December 2017 and 2016, the non-current and current financial liabilities not measured at fair value in the consolidated statement of financial position, but disclosed in the notes to these Consolidated Financial Statements by fair value hierarchy level are as follows:

Millions of Euros				
	31 December 2017			
	Fair value	Level 1	Level 2	Level 3
Bank borrowings	920	-	920	-
Fixed rate	-	-	-	-
Floating rate	920	-	920	-
Other financial liabilities	3,915	-	3,915	-
Fixed rate	3,902	-	3,902	-
Floating rate	13	-	13	-
Total non-current liabilities	4,835	-	4,835	-
Bank borrowings	23	-	23	-
Fixed rate	-	-	-	-
Floating rate	23	-	23	-
Bonds and other marketable securities	889	-	889	-
Fixed rate	-	-	-	-
Floating rate	889	-	889	-
Other financial liabilities	165	-	165	-
Fixed rate	127	-	127	-
Floating rate	38	-	38	-
Total current liabilities	1,077	-	1,077	-

Millions of Euros				
	31 December 2016			
	Fair Value	Level 1	Level 2	Level 3
Bank borrowings	665	-	665	-
Fixed rate	1	-	1	-
Floating rate	664	-	664	-
Other financial liabilities	4,050	-	4,050	-
Fixed rate	4,035	-	4,035	-
Floating rate	15	-	15	-
Total non-current liabilities	4,715	-	4,715	-
Bank borrowings	61	-	61	-
Fixed rate	-	-	-	-
Floating rate	61	-	61	-
Bonds and other marketable securities	966	-	966	-
Fixed rate	-	-	-	-
Floating rate	966	-	966	-
Other financial liabilities	202	-	202	-
Fixed rate	160	-	160	-
Floating rate	42	-	42	-
Total current liabilities	1,229	-	1,229	-

20. Risk management and control policy

The activities of ENDESA, S.A. and its subsidiaries are carried out in an environment where outside factors may affect the performance of its operations and its earnings, thereby making it necessary to manage and control their exposure.

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

The general principles of ENDESA's Risk Management and Control Policy are as follows:

- The Board of Directors of ENDESA, S.A. is responsible for determining the Risk Management and Control Policy, including tax issues, the supervision of the internal information and control systems and the setting of acceptable risk level at all times.
- The Risk Committee carries out the risk management and control functions under the direct supervision of the Audit and Compliance Committee (CAC).
- ENDESA S.A. must establish the rules and tools necessary to be able to develop a continuous process of identification, quantification and information on all relevant risks that might affect the Company.
- The operational organisation of risk management and control is carried out through the risk control and risk management functions, which are independent from each other.
- The businesses, corporate areas and companies establish the risk management controls required to ensure that transactions are performed in the markets in accordance with ENDESA's policies, principles and procedures and, in any event, abiding by the following limits and provisions:
 - Alignment of the risk levels with the objectives set by the Board of Directors.
 - Optimisation of risk management and control on a consolidated basis, priority being given this rather than individual management of each individual risk.
 - Continuous evaluation of the hedging, transfer and mitigation measures to guarantee its suitability and the adoption of best market practices.
 - Monitoring of the prevailing legislation, standards and regulations, including those relating to tax, to guarantee that transactions are performed in accordance with the rules governing the business.
 - Upholding and complying with internal rules, focusing in particular on Corporate Governance, the Code of Ethics, the Zero-tolerance of corruption plan, and the general principles for criminal risk prevention.
 - The duty to preserve the health and safety of the people who work for and at ENDESA.
 - Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental effects of ENDESA's activities.
 - Responsible optimisation of the use of resources available in order to provide shareholders with a return as part of corporate relations based on the principles of loyalty and transparency.
 - ENDESA's financial policies are aimed at active management of the financial risks associated with ordinary business and, in general, speculative positions are restricted.

The general guidelines of the Risk Control and Management Policy are developed and completed by other corporate risk policies specific to each business line, and also the limits established for optimum risk management.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A.

ENDESA's risk management and control model is partly based on the ongoing study of the risk profile, current best practices in the electricity sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising their risk-return ratio.

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred by the business lines and the corporation. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

The risk management and control mechanism are set out in the following notes.

20.1. Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities bearing interest at fixed rates and the future flows from assets and liabilities indexed to variable interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.

The goal is to reduce the amount of borrowings subject to interest rate fluctuations is reduced by the use of interest rate swap contracts. In any case, the structure of the contracts adapts to that of the underlying financial instrument, and never exceeds the maturity of the underlying financial instrument, so that any changes in the fair value or cash flows of these contracts are offset by changes in the fair value or cash flows of the underlying position.

At 31 December 2017 and 2016, the structure of financial risk, factoring in the derivatives arranged, is as follows:

Millions of Euros

	Net position			
	31 December 2017		31 December 2016	
	Before derivatives	After derivatives	Before derivatives	After derivatives
Fixed interest rate	3,599	3,611	3,660	3,660
Floating interest rate	1,382	1,374	1,272	1,278
TOTAL	4,981	4,985	4,932	4,938

At 31 December 2017 and 2016, the reference interest rate for the borrowings arranged by ENDESA is mainly Euribor.

The breakdown of interest-rate derivatives at 31 December 2017 and 2016 by designation is as follows:

Millions of Euros

	31 December 2017					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Fair value hedging derivatives						
Interest rate swaps	27	8	27	8	-	-
Interest rate options	-	-	-	-	-	-
Trading derivatives						
Interest rate swaps	113	(12)	-	-	113	(12)
Interest rate options	-	-	-	-	-	-
Total interest rate swaps	140	(4)	27	8	113	(12)
Total interest rate options	-	-	-	-	-	-
TOTAL INTEREST RATE DERIVATIVES	140	(4)	27	8	113	(12)

Millions of Euros

	31 December 2016					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Fair value hedging derivatives						
Interest rate swaps	68	11	68	11	-	-
Interest rate options	-	-	-	-	-	-
Trading derivatives						
Interest rate swaps	127	(17)	-	-	127	(17)
Interest rate options	-	-	-	-	-	-
Total interest rate swaps	195	(6)	68	11	127	(17)
Total interest rate options	-	-	-	-	-	-
TOTAL INTEREST RATE DERIVATIVES	195	(6)	68	11	127	(17)

Cash flows projected for the coming years in relation to these derivatives are as follows:

Millions of Euros

Cash flow stratification expected							
Present value (net of cumulative interest)	31 December 2017	2018	2019	2020	2021	2022	Subsequent
Fair value hedging derivatives	8	1	1	1	1	-	4
Interest rate trading derivatives	(12)	(5)	(4)	(2)	(1)	-	-

Millions of Euros

Cash flow stratification expected							
Present value (net of cumulative interest)	31 December 2016	2017	2018	2019	2020	2021	Subsequent
Fair value hedging derivatives	11	3	3	3	3	2	22
Interest rate trading derivatives	(17)	(5)	(5)	(4)	(2)	(1)	-

Considering effective cash flow hedges, 67% of debt is protected from interest rate risk at 31 December 2017 (69% at 31 December 2016). Considering fair value hedges, this percentage was 67% at 31 December 2017 (68% at 31 December 2016).

Sensitivity analysis

At 31 December 2017 and 2016, the impact of interest-rate fluctuations on the consolidated income statement and statement of other comprehensive income, other variables remaining constant, is as follows:

Millions of Euros

		31 December 2017		31 December 2016	
	Basis points change	Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Finance costs of variable gross borrowings after derivatives					
Interest rate increase	+25	6	-	4	-
Interest rate reduction	-25	(6)	-	(4)	-
Fair value of derivative hedging instruments					
Fair value					
Interest rate increase	+25	(1)	-	(1)	-
Interest rate reduction	-25	1	-	1	-
Cash flow					
Interest rate increase	+25	-	1	-	1
Interest rate reduction	-25	-	(1)	-	(1)
Fair value of derivative instruments not designated as hedging instruments					
Interest rate increase	+25	-	-	-	-
Interest rate reduction	-25	-	-	-	-

20.2. Currency risk

Currency risks mainly relate to transactions for the purchase of raw energy (especially natural gas and coal) on international markets where the prices of these materials ("commodities") are normally in US dollars. Similarly, ENDESA incurs in this risk in the management of debt in foreign currencies, procurements, the payment of insurance premiums, plant maintenance contracts, and dividends.

ENDESA has contracted currency swaps and exchange rate insurance to mitigate its currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.

The term of the contracts never exceeds the maturity of the underlying financial instrument, so that any changes in the fair value or cash flows of these contracts are offset by changes in the fair value or cash flows of the underlying position.

The breakdown of exchange rate derivatives by notional amount and fair value at 31 December 2017 and 2016 is as follows:

Millions of Euros						
EXCHANGE RATE DERIVATIVES	31 December 2017					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives						
Futures	1,345	(34)	167	1	1,178	(35)
Trading derivatives						
Futures	355	(3)	108	4	247	(7)
Total futures	1,700	(37)	275	5	1,425	(42)
TOTAL EXCHANGE RATE DERIVATIVES	1,700	(37)	275	5	1,425	(42)

Millions of Euros						
EXCHANGE RATE DERIVATIVES	31 December 2016					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives						
Futures	271	8	224	8	47	-
Trading derivatives						
Futures	368	19	336	20	32	(1)
Total futures	639	27	560	28	79	(1)
TOTAL EXCHANGE RATE DERIVATIVES	639	27	560	28	79	(1)

At 31 December 2017 and 2016, cash flows projected for the coming years in relation to these derivatives are as follows:

Millions of Euros							
Present value (net of cumulative interest)	Cash flow stratification expected						
	31 December 2017	2018	2019	2020	2021	2022	Subsequent
Derivatives - cash flow hedges	(34)	(25)	(8)	(1)	-	-	-
Exchange rate derivatives - trading	(3)	(3)	-	-	-	-	-

Millions of Euros							
Present value (net of cumulative interest)	Cash flow stratification expected						
	31 December 2016	2017	2018	2019	2020	2021	Subsequent
Derivatives - cash flow hedges	8	8	-	-	-	-	-
Exchange rate derivatives - trading	19	12	6	1	-	-	-

At 31 December 2017 and 2016, no non-current debt was denominated in foreign currencies, while cash and cash equivalents stood at Euros 1 million (31 December 2016: Euros 2 million) (see Note 14).

Sensitivity analysis

At 31 December 2017 and 2016, the impact of exchange-rate fluctuations of the euro against the US dollar (USD) on the consolidated income statement and statement of other comprehensive income, other variables remaining constant, is as follows:

Millions of Euros					
	Percentage variation	31 December 2017		31 December 2016	
		Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Fair value of derivative hedging instruments					
Cash flow					
Euro depreciation	10%	-	111	-	24
Euro appreciation	10%	-	(91)	-	(20)
Fair value					
Euro depreciation	10%	-	-	-	-
Euro appreciation	10%	-	-	-	-
Fair value of derivative instruments not designated as hedging instruments					
Euro depreciation	10%	15	-	30	-
Euro appreciation	10%	(12)	-	(24)	-

20.3. Commodity price risk

The Company is exposed to the risk of fluctuations in energy commodity prices, including carbon dioxide emission allowances (CO₂), mainly through the following:

- Purchases of fuel stocks in the electricity generation process.
- Power sale and purchase transactions on domestic and international markets.

Exposure to fluctuations in commodity prices is controlled by monitoring risk to ensure that it remains within the risk appetite as a measure to balance expected returns against assumed risk. These limits are based on expected results with a confidence interval of 95%. Industrial portfolio positions are reviewed monthly on the basis of Profit at Risk, and the trading portfolio is reviewed daily on the basis of Value at Risk.

Individual analyses are also performed on the impact of certain relevant transactions on ENDESA's risk profile and delivery of its predefined limits.

Exposure to this risk in the long term is managed by diversifying contracts, managing the procurements portfolio by reference to indices with a similar or comparable trend to that of the end electricity (generation) or sale (retailing) prices and through regularly renegotiated contractual clauses aimed at maintaining the economic balance of procurements.

In the short and medium term, fluctuations in commodity prices are managed through specific hedges, generally derivatives.

The breakdown of commodity derivatives by notional amount and fair value at 31 December 2017 and 2016 is as follows:

Millions of Euros

31 December 2017						
	Net notional amount	Notional, financial assets	Notional, financial liabilities	Net fair value	Assets, fair value	Liabilities, fair value
Cash flow hedging derivatives	1,825	1,077	748	48	119	(71)
Liquid fuel and gas swaps	1,111	668	443	23	63	(40)
Coal derivatives	241	199	42	42	43	(1)
Electricity swaps	473	210	263	(17)	13	(30)
Derivatives not designated as hedging instruments	1,016	537	479	18	67	(49)
Liquid fuel and gas swaps	435	222	213	13	32	(19)
Liquid fuel and gas options	-	-	-	-	-	-
Other liquid fuel and gas derivatives	22	12	10	1	2	(1)
Electricity swaps	489	250	239	1	30	(29)
Electricity options	13	-	13	-	-	-
Other electricity derivatives	1	1	-	-	-	-
Coal swaps	4	4	-	1	1	-
Other coal derivatives	33	29	4	1	1	-
Other physical derivatives	19	19	-	1	1	-
TOTAL	2,841	1,614	1,227	66	186	(120)

Millions of Euros

31 December 2016						
	Net notional amount	Notional, financial assets	Notional, financial liabilities	Net fair value	Assets, fair value	Liabilities, fair value
Cash flow hedging derivatives	139	133	6	69	69	-
Liquid fuel and gas swaps	17	17	-	2	2	-
Coal derivatives	105	103	2	66	66	-
Electricity swaps	17	13	4	1	1	-
Derivatives not designated as hedging instruments	2,294	1,190	1,104	44	167	(123)
Liquid fuel and gas swaps	1,139	707	432	64	107	(43)
Other liquid fuel and gas derivatives	20	10	10	-	3	(3)
Electricity swaps	859	337	522	(37)	34	(71)
Electricity options	17	-	17	-	-	-
Other electricity derivatives	-	-	-	-	-	-
Coal swaps	7	-	7	(1)	-	(1)
Other coal derivatives	196	103	93	13	15	(2)
Other physical derivatives	56	33	23	5	8	(3)
TOTAL	2,433	1,323	1,110	113	236	(123)

The breakdown of fair value projected for the coming years in relation to these derivatives at 31 December 2017 and 2016 is as follows:

Millions of Euros							
Fair Value	Fair value stratification						
	31 December 2017	2018	2019	2020	2021	2022	Subsequent
Cash flow hedging derivatives							
Electricity derivatives	(17)	(17)	-	-	-	-	-
Coal derivatives	42	42	-	-	-	-	-
Liquid fuel and gas derivatives	23	21	3	(1)	-	-	-
Derivatives not designated as hedging instruments							
Electricity derivatives	1	(1)	2	-	-	-	-
Coal derivatives	2	2	-	-	-	-	-
Liquid fuel and gas derivatives	14	12	2	-	-	-	-
Other physical derivatives	1	1	-	-	-	-	-

Millions of Euros							
Fair Value	Fair value stratification						
	31 December 2016	2017	2018	2019	2020	2021	Subsequent
Cash flow hedging derivatives							
Electricity derivatives	1	1	-	-	-	-	-
Coal derivatives	66	66	-	-	-	-	-
Liquid fuel and gas derivatives	2	2	-	-	-	-	-
Derivatives not designated as hedging instruments							
Electricity derivatives	(37)	(38)	1	-	-	-	-
Coal derivatives	12	13	(1)	-	-	-	-
Liquid fuel and gas derivatives	64	53	10	1	-	-	-
Other physical derivatives	5	5	-	-	-	-	-

Sensitivity analysis

Details of the impact on the value of existing commodities derivatives at 31 December 2017 and 2016 of a variation in raw commodity prices, other variables remaining constant, are as follows:

Millions of Euros

Cash flow hedging derivatives	Fluctuations in commodity prices	31 December 2017		31 December 2016	
		Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	-	20	-	2
	-10%	-	(18)	-	(2)
Coal derivatives	10%	-	28	-	17
	-10%	-	(28)	-	(17)
Liquid fuel and gas derivatives	10%	-	9	-	2
	-10%	-	(9)	-	(2)

Millions of Euros

Derivatives not designated as hedging instruments	Fluctuations in commodity prices	31 December 2017		31 December 2016	
		Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	4	-	(30)	-
	-10%	(4)	-	31	-
Coal derivatives	10%	-	-	1	-
	-10%	-	-	(1)	-
Liquid fuel and gas derivatives	10%	4	-	27	-
	-10%	(4)	-	(27)	-
Other physical derivatives	10%	2	-	1	-
	-10%	(2)	-	(1)	-

20.4. Liquidity risk

Liquidity risk may cause difficulties in meeting the obligations associated with financial liabilities, which are settled by provision of cash or other financial assets. Liquidity risk management aims to guarantee a level of liquidity minimising opportunity cost, and to maintain a structure of financial debt on the basis of due dates and sources of finance. In the short term, liquidity risk is mitigated by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.

ENDESA's liquidity policy consists of arranging committed long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.

These needs include maturity of net financial debt. Further details of the characteristics and conditions of borrowings and financial derivatives are provided in Notes 18 and 19.

The cash function is centralised at ENDESA Financiación Filiales, S.A.U., which draws up cash forecasts to ensure it has sufficient cash to meet operational needs, maintaining sufficient levels of availability on its undrawn loans.

At 31 December 2017 and 2016, ENDESA's liquidity was as follows:

Millions of Euros							
	Notes	31 December 2017			31 December 2016		
		Current maturity	Non-current maturities	Total	Current maturity	Non-current maturities	Total
Cash and cash equivalents	14	399	-	399	418	-	418
Unconditional undrawn credit facilities ⁽¹⁾	18.2	114	2,982	3,096	14	3,188	3,202
Liquidity		513	2,982	3,495	432	3,188	3,620

(1) At 31 December 2017 and 2016, Euros 1,000 million correspond to a credit facility with ENEL Finance International, N.V. committed and irrevocable available.

At 31 December 2017, ENDESA has negative working capital of Euros 2,005 million as a result of its cash management policy. The undrawn amount on the Company's long-term credit facilities provide assurance that the ENDESA can obtain sufficient financial resources to continue to operate, realise its assets and settle its liabilities for the amounts shown in the statement of financial position (see Note 18.2.1).

20.5. Credit risk

Credit risk is generated when a counterparty does not meet its obligations set out in a financial or commercial contract, giving rise to financial losses. ENDESA is exposed to credit risk from its operational and financial activities, including derivatives, deposits with banks, transactions in foreign currency and other financial instruments.

Unexpected changes to the credit rating of a counterparty have an impact on the creditor's position in terms of solvency (non-compliance risk) or changes to market value (spread risk).

ENDESA closely monitors its credit risk, taking additional precautions which include the following, among others:

- Risk analysis, assessment and monitoring of counterparty credit quality.
- Establishing contractual clauses guarantee requests, or contracting insurance where necessary.
- Exhaustive review of the level of counterparty exposure.
- Counterparty diversification.

Historically, credit risk on trade receivables is limited, given the short period of collection from customers, as supply may be cut off in accordance with the applicable regulations before any significant arrears are accumulated (see Note 13).

At 31 December 2017, debt to third parties totals Euros 741 million, which represents 16.6 equivalent invoicing days (2016: Euros 824 million and 19.8 equivalent invoicing days).

ENDESA's policies for managing credit risk on financial assets are as follows:

- ENDESA and its subsidiaries place their cash surpluses in counterparties which are leading entities in the markets in which they operate. At 31 December, 2017, the greatest exposure to cash positions held with a counterparty not belonging to the ENEL Group amounted to Euros 142 million (31 December 2016: Euros 186 million).
- Interest-rate and exchange-rate derivatives are arranged with highly solvent entities, whereby at 31 December 2017, 100% of interest-rate and exchange-rate derivative exposures relate to transactions with entities with a credit rating of "A-" or higher (62% at year-end 2016).
- Credit risk associated with financial instruments arranged on commodities is limited. At 31 December 2017, taking market values as a basis, exposure to commodity derivatives was less than Euros 12 million (Euros 83 million at 31 December 2016).
- At 31 December, 2017, the maximum accumulated credit risk by counterparty arising from interest rate, exchange rate and commodities derivatives, totals Euros 8 million, and therefore no counterparties accumulate more than 41% of the total credit risk related to financial instruments (31 December 2016: Euros 43 million and 36% total, respectively).

At 31 December 2017, there were guarantees, letters of guarantee, and pledges received for commercial transactions, as follows:

- Received from companies totalling Euros 7 million and (31 December 2016: Euros 5 million);
- Received from large companies totalling Euros 176 million (31 December 2016: Euros 210 million); and
- Commodity market counterparties totalling Euros 263 million (31 December 2016: Euros 263 million).

At 31 December 2017 and 2016, ENDESA had not pledged significant guarantees, letters of guarantee or pledges.

Due dates and impairment of financial assets

At 31 December 2017 and 2016 the breakdown of trade receivables for sales and services rendered by due dates and impairments is as follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Impaired		364	385
Not due or impaired		1,991	1,860
Due and not impaired ⁽¹⁾		377	439
Less than three months		278	310
Three to six months		39	63
Six to twelve months		21	24
Over twelve months		39	42
TOTAL	13	2,732	2,684

(1) Includes Euros 112 million receivable from Spanish public administrations (Euros 119 million at 31 December 2016).

Analysis of counterparty risk

At 31 December 2017 and 2016, the breakdown of the credit risk of financial instruments which are not due or impaired, and which are not trade receivables follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Cash and cash equivalents	14	399	418
A+		1	-
A		2	223
A-		43	38
BBB+		27	45
BBB		244	52
BBB-		53	2
BB+		5	9
BB		-	6
BB-		-	4
B+		3	17
Counterparty without credit rating		21	22
Available-for-sale financial assets	19.1.2	6	8
BBB		3	3
Counterparty without credit rating		3	5
Hedging derivatives	19.3	8	11
A+		8	-
A		-	11
Non-financial derivatives	13 and 19.3	191	264
AAA		22	-
AA-		-	1
A+		-	1
A		4	11
A-		1	4
BBB+		19	85
BBB		1	116
BBB-		1	2
BB+		1	4
BB		136	8
BB-		-	1
B+		6	12
B		-	1
B-		-	-
Counterparty without credit rating		-	18
Financial assets ⁽¹⁾		1,488	1,025
Financing of the revenue shortfall from regulated activities in Spain	4 and 19.1.1	222	258
Compensation for extra-costs in Non-mainland Territories generation (TNP)	4 and 19.1.1	304	-
Guarantees and deposits	19.1.1 and 21	424	424
Loans to employees	19.1.1	33	31
Loans to associates, Joint Ventures and joint operation entities	19.1.1 and 35.2	71	72
Remuneration of the distribution activity	4 and 19.1.1	176	70
Incentives for investment in renewable energies	4 and 19.1.1	4	15
Other financial assets	19.1.1	254	155
TOTAL		2,092	1,726

(1) Mainly includes receivables from Public Administrations, as well as from counterparties without a credit rating.

20.6. Customer concentration risk

ENDESA is exposed to customer and supplier concentration risk in its activity.

Customer concentration risk is managed and minimised by a business strategy with several diversification criteria:

- Customer typology: Large industrial customers, medium-sized companies and residential customers, both private individuals and public authorities;
- Economic activity of customers: Business with customers operating in different sectors, and
- Types of product sold: Electricity, natural gas and different value added products and services.

This strategy ensures that sales to a specific customer do not account for a major portion of ENDESA's economic results.

This risk is controlled by regular monitoring of trade receivable accounts (debts past-due and outstanding) for individuals and groups of companies under joint control.

In its relationships with its main shareholder, ENDESA is exposed to credit risk. In 2017 this risk was not significant, and related mainly to the potential change in commodities hedging contracts which ENDESA has arranged through ENEL Group companies.

At 31 December 2017, receivables from the ten largest customers (business group) accounted for less than 12% of the total, although none of them individually accounted for more than 2.3% at that date (11% and 2.4%, respectively, at 31 December 2016).

ENDESA's current relationships with main industry service suppliers and providers are essential for the development and growth of its business, and may affect its capacity to negotiate contracts with these parties under favourable conditions. Nonetheless, ENDESA's technical and economic rating processes allow it to ensure the quality of services acquired as well as the supplier's financial status, and offer a diversified supplier portfolio in all its purchasing categories, thereby making it possible to replace one in the case of interrupted service, mitigating its supplier concentration risk. In 2017, its top 10 suppliers did not represent more than 34.4% of the total (31 December 2016: 27%).

21. Other non-current liabilities

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Guarantee deposits	19.1.1	462	453
Non-financial derivatives	19.3	34	12
Other payables		150	136
TOTAL	19.2	646	601

22. Deferred tax assets and liabilities

22.1. Deferred tax assets

At 31 December 2017 and 2016, deferred taxes assets arose as a result of the following:

Millions of Euros			
		31 December 2017	31 December 2016
Deferred tax assets arising from:			
Depreciation and amortisation of assets		147	169
Provisions for pension funds and work force reduction plans		598	677
Other provisions		265	266
Tax loss carryforwards		36	1
Unused tax credits		60	96
Others		36	15
TOTAL		1,142	1,224

Movement in deferred tax assets in 2017 and 2016 in the consolidated statement of financial position are as follows:

Millions of Euros

	Deferred Tax Assets						Balance at 31 December 2017
	Balance at 31 December 2016	Inclusion/(exclusion) of companies (1)	(Debit) / credit Profit and loss (Note 32)	(Debit) / credit Equity (Note 32)	Transfers and other	Transfers to non-current assets held for sale	
Depreciation and amortisation of assets	169	(8)	(11)	-	(3)	-	147
Provisions for pension funds and work force reduction plans	677	-	(52)	(27)	-	-	598
Other provisions	266	-	(1)	-	-	-	265
Tax loss carryforwards	1	(1)	36	-	-	-	36
Unused tax credits	96	-	(36)	-	-	-	60
Others	15	-	(6)	13	14	-	36
TOTAL	1,224	(9)	(70)	(14)	11	-	1,142

(1) Relates to the deconsolidation of Nueva Marina Real Estate, S.L. (Note 2.3.1) and the sale of the joint operation entities (see Notes 2.3.1 and 2.5.1).

Millions of Euros

	Deferred Tax Assets						Balance at 31 December 2016
	Balance at 31 December 2015	Inclusion/(exclusion) of companies (1)	Debit / (credit) to profit and loss (Note 32)	Debit / (credit) to equity (Note 32)	Transfers and other	Transfers to non-current assets held for sale (2)	
Depreciation and amortisation of assets	179	15	(42)	-	17	-	169
Provisions for pension funds and work force reduction plans	705	1	(67)	47	(9)	-	677
Other provisions	178	-	50	-	38	-	266
Tax loss carryforwards	1	-	-	-	-	-	1
Unused tax credits	161	17	(82)	-	-	-	96
Others	62	5	(7)	(6)	(38)	(1)	15
TOTAL	1,286	38	(148)	41	8	(1)	1,224

(1) Including deferred tax assets acquired as part of the takeover of ENEL Green Power España, S.L.U. (EGPE) (Euros 37 million) and the acquisition of Eléctrica del Ebro, S.A.U. (Euros 1 million) (see Notes 5.4 and 5.5).

(2) Relating to the transfer to the "Deferred tax assets - Non-current assets held for sale and discontinued operations" heading of Energías de la Mancha Eneman, S.A. and Energía de La Loma, S.A. (see Note 2.3.1).

Recovery of the deferred tax assets depends on the generation of sufficient taxable profits in the future. The Parent Company's directors consider that the projected taxable profits of the various ENDESA companies amply cover the amounts required to recover these assets.

At 31 December 2017 and 2016, ENDESA had deferred taxes related to tax losses of Euros 13 million and Euros 2 million, respectively, pending recognition.

At 31 December 2017, there were deferred tax assets corresponding to tax loss carryforwards liable to be offset by future profits in the amount of Euros 36 million (Euros 1 million at 31 December 2016).

At 31 December 2017 and 2016 the breakdown of the deferred tax assets corresponding to unused tax credits available for use against future profits and the final year they may be utilised are as follows:

Millions of Euros

Year	31 December 2017	31 December 2016
2027	5	9
2028	9	24
2029	1	3
2030	1	10
2031	1	13
2032	3	6
2033	7	-
2034	9	-
2035	5	-
No limit	19	31
TOTAL	60	96

22.2. Deferred tax liabilities

At 31 December 2017 and 2016, deferred taxes liabilities arose as a result of the following:

Millions of Euros	31 December 2017	31 December 2016
Deferred tax liabilities arising from:		
Accelerated depreciation and amortisation of assets for tax purposes	649	652
Others	448	449
TOTAL	1,097	1,101

Movement in deferred tax liabilities in 2017 and 2016 in the consolidated statement of financial position are as follows:

Millions of Euros	Deferred tax liabilities						
	Balance at 31 December 2016	Inclusion/(exclusion) of companies ⁽¹⁾	(Debit) / credit Profit and loss (Note 32)	(Debit) / credit Equity (Note 32)	Transfers and other	Transfers to liabilities associated with non-current assets classified as held for sale	Balance at 31 December 2017
Accelerated depreciation and amortisation of assets for tax purposes	652	(1)	(10)	-	8	-	649
Others	449	1	(6)	7	(3)	-	448
TOTAL	1,101	-	(16)	7	5	-	1,097

(1) Relates to the deconsolidation of Nueva Marina Real Estate, S.L. and the acquisition of companies relating to capacity awarded in renewables auctions (see Notes 2.3.1 and 5.3).

Millions of Euros	Deferred tax liabilities						
	Balance at 31 December 2015	Inclusion/(exclusion) of companies ⁽¹⁾	Debit / (credit) Profit and loss (Note 32) ⁽²⁾	Debit / (credit) to equity (Note 32)	Transfers and other	Transfers to liabilities associated with non-current assets classified as held for sale ⁽³⁾	Balance at 31 December 2016
Accelerated depreciation and amortisation of assets for tax purposes	681	18	(10)	-	(37)	-	652
Others	258	218	(81)	20	40	(6)	449
TOTAL	939	236	(91)	20	3	(6)	1,101

(1) Including deferred tax liabilities associated with the revaluation of the net assets acquired as part of the takeover of ENEL Green Power España, S.L.U. (EGPE) (Euros 231 million) and the acquisition of Eléctrica del Ebro, S.A.U. (Euros 5 million) (see Notes 5.4 and 5.5).

(2) Following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition (see Notes 5.4, 11.1 and 32).

(3) Relating to the transfer to the "Deferred tax assets - Liabilities associated with non-current assets classified as held for sale and discontinued operations" heading of Energías de la Mancha Eneman, S.A. and Energía de La Loma, S.A. (see Note 2.3.1).

22.3. Other information

Compensation of deferred tax assets and liabilities.

At 31 December 2017 and 2016, deferred taxes eligible for offset amounted to Euros 851 million and Euros 769 million, respectively.

Of total deferred tax assets and deferred tax liabilities at 31 December 2017 and 2016, the following may not be set off:

Millions of Euros	31 December 2017	31 December 2016
Deferred tax assets not eligible for offset	291	455
Deferred tax liabilities not eligible for offset	246	332

Realization of deferred tax assets and liabilities.

The estimated deferred tax assets and liabilities recognised on the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros

	31 December 2017	31 December 2016
Deferred tax assets	1,142	1,224
Realisable in one year	113	124
Realisable in over a year	1,029	1,100
Deferred tax liabilities	1,097	1,101
Realisable in one year	28	27
Realisable in over a year	1,069	1,074

23. Trade and other payables

Details of this heading in the consolidated statement of financial position at 31 December 2017 and 2016 are as follows:

Millions of Euros

	Notes	31 December 2017	31 December 2016
Financial liabilities	19.2	5,411	4,960
Suppliers and other payables		4,071	3,429
Non-financial derivatives	19.3	128	112
Dividend payable	15.1.9	743	744
Other payables		469	379
Generation extra-costs in Non-mainland Territories generation (TNP)	4 and 19.1.1	-	296
Tax liabilities		721	850
Current income tax		170	332
Value Added Tax (VAT) payable		39	37
Other taxes		512	481
TOTAL		6,132	5,810

At 31 December 2017, the “Dividend payable” heading included, mainly, the 2017 interim dividend authorised by the Board of Directors of ENDESA, S.A. on 21 November 2017, in the total amount of Euros 741 million (Euros 0.70 per share, gross), which was paid on 2 January 2018 (see Note 15.1.9).

At 31 December 2016, the “Dividend payable” heading included the 2016 interim dividend authorised by the Board of Directors of ENDESA, S.A. on 22 November 2016, in the total amount of Euros 741 million (Euros 0.70 per share, gross), which was paid on 2 January 2017 (see Note 15.1.9).

At 31 December 2017, the amount of commercial debt sent to financing entities for managing payments to suppliers (reverse factoring), recognised under “Trade and other payables”, totalled Euros 403 million (31 December 2016: Euros 263 million). Financial income accrued from reverse factoring contracts in 2017 was less than Euros 1 million (Euros 1 million in 2016).

23.1. Information on the Average Payment Period to Suppliers Third additional provision. “Duty of disclosure” under Law 15/2010 of 5 July

The following are details of the degree of compliance by the Company with the statutory deadlines for payment to suppliers for commercial transaction under Law 15/2010, of 5 July, in 2015:

Number of days			
	2017	2016	
Average payment period to suppliers	16	18	
Ratio of transactions paid	15	19	
Ratio of transactions pending payment	47	33	

Millions of Euros			
	2017	2016	
Total payments made	18,485	14,780	
Total payments pending	757	295	

24. Current provisions

The breakdown of this heading on the consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

Millions of Euros			
	Notes	31 December 2017	31 December 2016
Provisions for workforce restructuring costs		186	214
Workforce reduction plans	17.2.1	73	124
Contract suspension	17.2.2	113	90
Carbon dioxide emission allowances (CO ₂)	12.1	215	190
Other current provisions		24	163
TOTAL		425	567

25. Income

During 2017 and 2016, the breakdown of sales on the consolidated income statement is as follows:

Millions of Euros			
	2017	2016	
Sales	19,556	18,313	
Other operating income	501	666	
TOTAL	20,057	18,979	

25.1. Revenue

During 2017 and 2016, the breakdown of sales on the consolidated income statement is as follows:

Millions of Euros			
	2017	2016	
Revenue from power sales:	14,451	13,541	
Sales to the deregulated market	8,457	8,213	
Supply to customers in deregulated markets outside Spain	1,076	961	
Sales at regulated prices	2,460	2,412	
Wholesale market sales	1,137	875	
Non-mainland Territories compensation (TNP)	1,215	1,015	
Other electricity sales	106	65	
Gas sales	2,233	2,079	
Regulated revenue from electricity distribution	2,231	2,054	
Other sales and rendering of services	641	639	
TOTAL	19,556	18,313	

Regulated revenue from distribution activities in 2017 rose to Euros 2,231 million and was estimated taking into account the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda (see Note 4).

In 2017 and 2016, sales to external customers in the main geographical areas in which the Group operates are as follows:

Millions of Euros		
	2017	2016
Spain	17,659	16,645
Portugal	1,068	856
France	435	354
Germany	226	178
United Kingdom	14	7
Netherlands	63	63
Others	91	210
TOTAL	19,556	18,313

25.2. Other operating income

During 2017 and 2016, the breakdown of other operating income on the consolidated income statement is as follows:

Millions of Euros		
	2017	2016
Changes in fuel stock derivatives	158	324
Grants released to income ⁽¹⁾	183	176
Rendering of services at plants	10	8
Other	150	158
TOTAL	501	666

(1) Includes capital grants and ceded facilities transferred to profit or loss for the amount of Euros 175 million in 2017 (Euros 173 million in 2016) (see Note 16).

26. Procurements and services

26.1. Purchases of energy

Details of this heading in the consolidated income statement for 2017 and 2016 are as follows:

Millions of Euros		
	2017	2016
Purchases	4,933	4,056
Electricity	3,261	2,617
Fuel stocks	1,672	1,437
Coal	-	51
Gas	1,672	1,386
Other fuels	-	2
TOTAL	4,933	4,056

26.2. Cost of fuel consumed

Details of this heading in the consolidated income statement for 2017 and 2016 are as follows:

Millions of Euros		
	2017	2016
Consumption	2,294	1,652
Fuel stocks	2,294	1,652
Coal	909	670
Nuclear fuel	137	140
Fuel oil	836	652
Gas	412	190
TOTAL	2,294	1,652

26.3. Other variable procurements and services

During 2017 and 2016, the breakdown of this item on the consolidated income statement is as follows:

Millions of Euros			
	2017	2016	
Changes in fuel stock derivatives	182	270	
Environmental fees and taxes	642	498	
Carbon dioxide emission allowances (CO ₂)	214	188	
Street lighting / works licences	162	188	
Treatment of radioactive waste	182	179	
Other variable costs	308	483	
TOTAL	1,690	1,806	

In 2017 the Company registered the amounts paid in relation to the Social Bonus for 2014, 2015 and 2016, recognising Euros 222 million in the consolidated income statement under “Other variable procurements and services”, and Euros 15 million under “Financial income”, deriving from the financial impact of legal interest, which was collected in full at the date of preparation of these Consolidated Financial Statements (see Note 30).

27. Personnel expenses

In 2017 and 2016, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2017	2016
Wages and salaries		676	674
Contributions to pension schemes	17.1	64	56
Provisions for workforce restructuring costs		(8)	209
Provisions for workforce reduction plans	17.2.1	(4)	2
Provisions for contract suspensions	17.2.2	(4)	207
Other personnel expenses/employee benefits expense		185	189
TOTAL		917	1,128

28. Other fixed operating expenses

In 2017 and 2016, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2017	2016
Repairs and maintenance		348	357
Insurance premiums		59	58
Independent professional services and external services		72	58
Leases and levies	9.2	44	43
Taxes other than income tax		130	106
Travel expenses		22	20
Other fixed operating expenses		576	567
TOTAL		1,251	1,209

29. Depreciation and amortisation, and impairment losses

During 2017 and 2016, the breakdown of this item on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2017	2016
Provision for the depreciation of property, plant and equipment	6	1,200	1,208
Impairment of property, plant and equipment and investment property	6 and 7	(13)	22
Provision for amortisation of intangible assets	8	150	138
Provision for impairment losses on intangible assets	8	(8)	(5)
Provisions for bad debts and other	13, 19.4.1 and 34.2	182	104
TOTAL		1,511	1,467

30. Net financial profit/(loss)

In 2017 and 2016, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2017	2016
Finance income		40	36
Cash and cash equivalents		-	1
Other financial assets		1	13
Other financial income	26.3	39	22
Finance expenses		(172)	(219)
Debt	19.4.2	(133)	(133)
Provisions	17.2.1, 17.2.2 and 17.3	(25)	(70)
Capitalised finance costs	3a.1 and 3i.1	8	9
Post-employment obligations expense	17.1	(18)	(21)
Other financial expenses		(4)	(4)
Gains/(losses) on derivative financial instruments		11	8
Income from derivatives at fair value with changes in profit/loss		5	4
Income from fair value hedging derivatives		3	3
Income from the measurement of financial instruments at fair value		3	1
Finance costs on derivative financial instruments		(6)	(3)
Cash flow hedge expenses		(6)	(2)
Expenses from derivatives at fair value with changes in profit/loss		2	-
Expenses for fair value hedging derivatives		(2)	(1)
Expenses from the measurement of financial instruments at fair value		-	-
Exchange gains/(losses)		4	(4)
Gains		22	28
Losses		(18)	(32)
Net financial gain/(loss)		(123)	(182)

31. Gains/(losses) on disposal of assets

The main transactions in 2017 and 2016 were as follows:

	Notes	2017	2016
Proceeds from sale of investments in group companies		13	-
Aquila Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.	2.5.1	4	-
Nueva Marina Real Estate, S.L.	2.3.1	9	-
Proceeds from sale of property, plant and equipment		7	9
Factoring transaction fees	13.1	(27)	(25)
Other gains/(losses)	2.5	14	-
TOTAL		7	(16)

32. Income tax

In 2017 and 2016, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2017	2016
Current income tax for the year		370	237
Deferred income tax for the year	22	54	57
Adjustment of prior years		1	13
Income tax provisions		2	(9)
TOTAL		427	298

In 2016, following the takeover of ENEL Green Power España, S.L.U. (EGPE) (see Notes 5.4, 11.1 and 22), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition.

Reconciliation between accounting profit and income tax expense

The 2017 and 2016 reconciliation of the accounting profit (loss) from continuing activities to the income tax expense is as follows:

Millions of Euros						
	2017					
	Income statement	Rate (%)	Income and expenses directly recognised in equity	Rate (%)	Total	Rate (%)
Accounting profit after income tax	1,473		86		1,559	
Income tax expense	427		21		448	
Accounting profit before tax	1,900		107		2,007	
Theoretical tax	475	25.0	27	25.0	502	25.0
Permanent differences	(14)		(6)		(20)	
Impact of net gains/losses under the equity consolidated method	(8)	(0.4)	(1)	(0.9)	(9)	(0.4)
Unrecognised tax losses	-	-	-	-	-	-
Tax credit from the Canary Islands Reserve (CIR)	(5)	(0.3)	-	-	(5)	(0.2)
Non-deductible provisions	(3)	(0.2)	-	-	(3)	(0.1)
Consolidation adjustments and others	2	0.1	(5)	(4.7)	(3)	(0.1)
Tax credits taken to profit and loss	(34)	(1.8)	-	-	(34)	(1.7)
Prior years' adjustments and other deferred taxes	(3)	(0.2)	-	-	(3)	(0.1)
Tax impact in the year	424	22.3	21	19.6	445	22.2

Millions of Euros						
	2016					
	Income statement	Rate (%)	Income and expenses directly recognised in equity	Rate (%)	Total	Rate (%)
Accounting profit after income tax	1,412		(91)		1,321	
Income tax expense	298		(21)		277	
Accounting profit before tax	1,710		(112)		1,598	
Theoretical tax	427	25.0	(28)	(25.0)	399	25.0
Permanent differences	(80)		7		(73)	
Impact of net gains/losses under the equity consolidated method	(76)	(4.5)	(1)	(0.9)	(77)	(4.8)
Unrecognised tax losses	1	0.1	-	-	1	0.1
Tax credit from the Canary Islands Reserve (CIR)	7	0.4	-	-	7	0.4
Non-deductible provisions	(4)	(0.2)	-	-	(4)	(0.3)
Consolidation adjustments and others	(8)	(0.5)	8	7.1	-	-
Tax credits taken to profit and loss	(34)	(2.0)	-	-	(34)	(2.1)
Prior years' adjustments and other deferred taxes	(19)	(1.1)	-	-	(19)	(1.2)
Tax impact in the year	294	17.2	(21)	(18.8)	273	17.1

Reconciliation of net tax

In 2017 and 2016, the reconciliation of the income tax expense to the net tax from continuing activities is as follows:

Millions of Euros				
	Notes	2017		
		Income statement	Income and expenses directly recognised in equity	Total
Tax impact in the year		424	21	445
Change in deferred taxes	22	(54)	(21)	(75)
Net income of continuing operations		370	-	370

Millions of Euros				
	Notes	2016		
		Income statement	Income and expenses directly recognised in equity	Total
Tax impact in the year		294	(21)	273
Change in deferred taxes	22	(57)	21	(36)
Net income of continuing operations		237	-	237

Details of the income tax expense

The breakdown of the income tax expense for 2017 and 2016 is as follows:

Millions of Euros				
		2017		
		Current tax	Change in deferred taxes (Note 22)	Total
Recognition in income statement, of which:		370	54	424
Net income of continuing operations		370	-	370
Deferred taxes		-	54	54
Depreciation and amortisation of assets		-	11	11
Provisions for pension funds and work force reduction plans		-	52	52
Other provisions		-	1	1
Tax loss carryforwards		-	(36)	(36)
Unused tax credits		-	36	36
Accelerated depreciation and amortisation of assets for tax purposes		-	(10)	(10)
Others		-	-	-
Recognition in equity, of which:		-	21	21
Provisions for pension funds and work force reduction plans		-	27	27
Others		-	(6)	(6)
Tax impact in the year		370	75	445

Millions of Euros				
		2016		
		Current tax	Change in deferred taxes (Note 22)	Total
Recognition in income statement, of which:		237	57	294
Net income of continuing operations		237	-	237
Deferred taxes		-	57	57
Depreciation and amortisation of assets		-	42	42
Provisions for pension funds and work force reduction plans		-	67	67
Other provisions		-	(50)	(50)
Tax loss carryforwards		-	-	-
Unused tax credits		-	82	82
Accelerated depreciation and amortisation of assets for tax purposes		-	(10)	(10)
Others		-	(74)	(74)
Recognition in equity, of which:		-	(21)	(21)
Provisions for pension funds and work force reduction plans		-	(47)	(47)
Others		-	26	26
Tax impact in the year		237	36	273

The Canary Islands investment reserve (CIR) grants Corporation Tax taxpayers the right to a reduction in the taxable income on their establishment in the Canary Islands, which use their profits in certain investments, with the limits and requirements set forth in Law 19/1994, of 6 July, modifying the Canary Islands economic and tax regime as regards its regulation and implementation.

The most representative deductions in tax credits in 2017 totalled Euros 34 million, and include Euros 19 million in credits related to the production of movable tangible property in the Canary Islands and Euros 8 million for deductions on the investments in fixed assets in the Canary Islands (2016: Euros 19 million and Euros 10 million, respectively).

33. Statement of cash flows

At 31 December 2017, cash and cash equivalents stood at Euros 399 million (Euros 418 million at 31 December 2016) (see Note 14).

At 31 December 2017 and 2016, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros			
Statement of cash flows ⁽¹⁾			
	2017	2016	
Net cash flows from operating activities	2,438	2,995	
Net Cash Flows used in investing Activities	(1,115)	(2,317)	
Net Cash Flows used in financing Activities	(1,342)	(606)	

33.1. Net cash flows from operating activities

In 2017, net cash flows from operating activities amounted to Euros 2,438 million (Euros 2,995 million in 2016) and present the detail that appears below:

Millions of Euros			
	Notes	2017	2016
Profit before tax		1,900	1,710
Adjustments for:		1,579	1,840
Depreciation and amortisation, and impairment losses	29	1,511	1,467
Other adjustments (net)		68	373
Changes in working capital		(370)	217
Trade and other receivables		(387)	(57)
Inventories		(241)	(162)
Current financial assets		(554)	336
Trade payables and other current liabilities		812	100
Other cash flows from/(used in) operating activities:		(671)	(772)
Interest received		44	27
Dividends received		27	22
Interest paid		(134)	(128)
Income tax paid		(350)	(346)
Other receipts from and payments for operating activities		(258)	(347)
NET CASH FLOWS FROM OPERATING ACTIVITIES		2,438	2,995

Concerning the variations in the different items determining the net cash flows from to operating activities:

- In 2017, the net cash flows originating from operating activities include the incorporation of ENEL Green Power España S.L.U. (EGPE) and Eléctrica del Ebro, S.A.U. to the consolidation scope for the amount of Euros 195 million and Euros 6 million respectively (Euros 65 million and Euros 1 million respectively in 2016 from their respective takeover dates) (see Notes 5.4 and 5.5).
- The changes in working capital between both periods for the amount of Euros 587 million, resulting mainly from the reduction of Euros 833 million in net receipts from corresponding to the compensation for extra-costs corresponding to Non-mainland Territories generation (see Notes 4, 13, 19.11 and 23).
- These changes also reflect the amount pending receipt of the Social Bonus as a result of the passing of several rulings relating thereto (see Notes 4, 17.3, 26 and 30).
- In 2017 the Company has also continued with its active policy concerning the management of current assets and liabilities, focusing on, among other aspects, the improvement of processes, the factoring of

accounts receivable (see Note 13) and agreements extending payment periods with suppliers (see Note 23).

- The changes in other operating activity receipts and payments in both periods for the amount of Euros 89 million, mainly as a result of the lower payments for provisions, corresponding to workforce restructuring plans (see Note 17.2)

33.2. Net cash flows from investing activities

In 2017 net cash flows used for investing activities totalled Euros 1,115 million (Euros 2,317 million in 2016) and mainly include:

- Net cash payments applied to the acquisition of property plant and equipment and intangible assets of Euros 971 million (Euros 1,144 million in 2016) (see Notes 6, 8 and 11).
- Investment payments and/or receipts from disposals of shareholdings in Group companies as detailed below:

Millions of Euros

	Note	2017	2016
Purchase of investments in Group companies		(2)	(1,196)
Corporate transactions related to capacity awarded in renewable energy auctions	5.3	(1)	-
Eléctrica de Jafre, S.A.	5.2	(1)	-
ENEL Green Power España, S.L.U. (EGPE)	5.4	-	(1,178)
Eléctrica del Ebro, S.A.U.	5.5	-	(18)
Proceeds from sale of investments in group companies		16	135
Aquila Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.	2.5	16	-
Energía de La Loma, S.A. and Energías de la Mancha Eneman, S.A.	2.3.1	-	21
ENEL Insurance N.V.	2.5	-	114

33.3. Net cash flows from financing activities

In 2017, net cash flows used in financing activities stood at Euros 1,342 million (Euros 606 million in 2016) and mainly include the following aspects:

- Proceeds from the following non-current borrowings:

Millions of Euros

	Notes	2017	2016
Proceeds from Tranches B and C of European Investment Bank (EIB)	18.2.2	300	-
Proceeds from Credit Line		-	90
Other proceeds		15	19
TOTAL	18.1	315	109

- Repayments of the following non-current borrowings:

Millions of Euros

		2017	2016
Repayments of Bonds issued by International ENDESA B.V.		(20)	-
Repayments of Loans with Natixis		(21)	-
Repayments of Credit Line		-	(105)
Other repayments		(33)	(13)
TOTAL	18.1	(74)	(118)

- Payment of the following dividends:

Millions of Euros

	Notes	2017	2016
Dividends of the Parent Paid	15.1.9	(1,411)	(1,086)
Dividends to Non-controlling Interests Paid ⁽¹⁾		(4)	(3)

(1) Corresponding to companies of ENEL Green Power España, S.L.U. (EGPE).

- The net payment of Euros 3 million relating to the acquisition of non-controlling interests in the companies Productor Regional de Energía Renovable, S.A. and Productor Regional de Energías Renovables III, S.A. (see Note 2.3.1).

The breakdown of the movement in the nominal amount of non-current debt is detailed in Note 18.1.

34. Segment information

34.1. Basis of segmentation

In carrying out its business activities, ENDESA's organisation prioritises its core business of electricity and gas generation, distribution, and sale as well as related services. Therefore, the differentiated financial information, which the Executive Management Committee of the Company analyses for the purposes of taking its decisions is the Segment information, which includes:

- Generation, together with Supply;
- Distribution;
- Structure, including, mainly, the balances and transactions of holding companies and financing companies and provision of services; and
- Consolidation adjustments and eliminations, including the inter-segment consolidation eliminations and adjustments.

The corporate organisation of ENDESA essentially matches these Segments. Therefore, the allocation established in the Segment reporting presented below is based on the financial information of the companies making up each Segment.

Transactions between Segments form part of normal business activities in terms of their purpose and terms and conditions.

External customers did not represent 10% or more of the income of any ENDESA segment in 2017 and 2016.

34.2. Segment information

Segment information in the consolidated income statements for 2017 and 2016, the consolidated statements of financial position and consolidated statements of cash flows at 31 December 2017 and 2016, and the consolidated statements of financial position for the years ended 31 December 2017 and 2016 is as follows:

34.2.1. Segment Information: 2017 consolidated income statement and consolidated statement of financial position at 31 December 2017.

Millions of Euros

	2017				
	Generation and Supply ⁽¹⁾	Distribution ⁽²⁾	Structure	Consolidated adjustments and eliminations	Total
INCOME	17,509	2,750	560	(762)	20,057
Sales	17,223	2,492	541	(700)	19,556
Other operating income	286	258	19	(62)	501
PROCUREMENTS AND SERVICES	(14,725)	(160)	146	170	(14,569)
Fuel stock purchased	(4,933)	-	-	-	(4,933)
Cost of fuel consumed	(2,294)	-	-	-	(2,294)
Transport costs	(5,652)	-	-	-	(5,652)
Other variable procurements and services	(1,846)	(160)	146	170	(1,690)
CONTRIBUTION MARGIN	2,784	2,590	706	(592)	5,488
Self-constructed assets	42	156	24	-	222
Personnel expenses	(478)	(267)	(192)	20	(917)
Other fixed operating expenses	(998)	(429)	(393)	569	(1,251)
GROSS OPERATING PROFIT	1,350	2,050	145	(3)	3,542
Depreciation and amortisation, and impairment losses	(862)	(597)	(52)	-	(1,511)
PROFIT FROM OPERATIONS	488	1,453	93	(3)	2,031
NET FINANCIAL PROFIT/(LOSS)	(132)	(96)	105	-	(123)
Financial income	43	6	421	(419)	51
Financial expense	(180)	(102)	(315)	419	(178)
Net exchange differences	5	-	(1)	-	4
Net profit/(loss) of companies accounted for using the equity method	(18)	3	-	-	(15)
Gains/(losses) from other investments	-	-	1,502	(1,502)	-
Gains/(losses) on disposal of assets	(24)	19	17	(5)	7
PROFIT/(LOSS) BEFORE TAX	314	1,379	1,717	(1,510)	1,900
Income tax expense	(41)	(331)	(56)	1	(427)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS	273	1,048	1,661	(1,509)	1,473
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS	-	-	-	-	-
PROFIT FOR THE YEAR	273	1,048	1,661	(1,509)	1,473
Parent Company	263	1,048	1,661	(1,509)	1,463
Non-controlling interests	10	-	-	-	10

(1) Include charges for the impairment of property, plant, and equipment in the amount of Euros 1 million and Euros 160 million for impairment of trade bad debts (see Notes 6 and 13)

(2) Includes reversals of impairment of property, plant and equipment in the amount of Euros 14 million, Euros 8 million to reversals of impairment of intangible assets and Euros 22 million related to impairment charges arising from trade bad debts (see Notes 6, 8 and 13)

Millions of Euros

	31 December 2017				
	Generation and Supply	Distribution	Structure	Consolidated adjustments and eliminations	Total
ASSETS					
Non-current assets	12,936	13,149	25,134	(25,712)	25,507
Property, plant and equipment	9,779	11,881	68	(1)	21,727
Investment property	-	2	7	-	9
Intangible assets	864	181	151	-	1,196
Goodwill (Note 10)	379	76	4	-	459
Investments accounted for using the equity method	186	19	-	-	205
Non-current financial assets	1,078	665	24,759	(25,733)	769
Deferred tax assets	650	325	145	22	1,142
Current assets	4,387	1,319	1,977	(2,153)	5,530
Inventories	1,191	76	-	-	1,267
Trade and other receivables	2,647	956	478	(981)	3,100
Current financial assets	366	281	1,289	(1,172)	764
Cash and cash equivalents	183	6	210	-	399
Non-current assets held for sale and discontinued operations	-	-	-	-	-
TOTAL ASSETS	17,323	14,468	27,111	(27,865)	31,037
EQUITY AND LIABILITIES					
Equity	4,350	2,328	17,367	(14,812)	9,233
Of the Parent	4,218	2,323	17,367	(14,812)	9,096
Non-controlling interests	132	5	-	-	137
Non-current liabilities	8,526	10,076	6,572	(10,905)	14,269
Deferred Income	50	4,704	-	(24)	4,730
Non-current provisions	1,889	1,020	369	104	3,382
Non-current financial debt	5,694	3,564	6,133	(10,977)	4,414
Other Non-current liabilities	193	450	13	(10)	646
Deferred tax liabilities	700	338	57	2	1,097
Current liabilities	4,447	2,064	3,172	(2,148)	7,535
Current financial debt	319	4	1,823	(1,168)	978
Current provisions	309	60	55	1	425
Trade and other payables	3,819	2,000	1,294	(981)	6,132
Liabilities associated with non-current assets classified as held for sale and discontinued operations	-	-	-	-	-
TOTAL EQUITY AND LIABILITIES	17,323	14,468	27,111	(27,865)	31,037

34.2.2. Segment Information: 2016 consolidated income statement and consolidated statement of financial position at 31 December 2016.

Millions of Euros

	2016				
	Generation and Supply ⁽¹⁾	Distribution ⁽²⁾	Structure	Consolidated adjustments and eliminations	Total
INCOME	16,628	2,538	342	(529)	18,979
Revenue	16,190	2,268	252	(397)	18,313
Other operating revenues	438	270	90	(132)	666
PROCUREMENTS AND SERVICES	(13,284)	(139)	(141)	237	(13,327)
Fuel stock purchases	(4,055)	(1)	-	-	(4,056)
Cost of fuel consumed	(1,652)	-	-	-	(1,652)
Transport costs	(5,812)	-	-	(1)	(5,813)
Other variable procurements and services	(1,765)	(138)	(141)	238	(1,806)
CONTRIBUTION MARGIN	3,344	2,399	201	(292)	5,652
Self-constructed assets	8	106	3	-	117
Personnel expenses	(544)	(321)	(263)	-	(1,128)
Other fixed operating expenses	(958)	(396)	(116)	261	(1,209)
GROSS OPERATING PROFIT	1,850	1,788	(175)	(31)	3,432
Depreciation and impairment losses	(785)	(657)	(24)	(1)	(1,467)
PROFIT FROM OPERATIONS	1,065	1,131	(199)	(32)	1,965
NET FINANCIAL PROFIT/(LOSS)	(154)	(123)	95	-	(182)
Financial income	45	4	306	(311)	44
Financial expense	(194)	(127)	(212)	311	(222)
Net exchange differences	(5)	-	1	-	(4)
Net profit/(loss) of companies accounted for using the equity method	(68) ⁽³⁾	3	6	-	(59)
Gains/(Losses) from other Investments	(1)	2	1,593	(1,592)	2
Gains/(losses) on disposal of assets	(20)	7	-	(3)	(16)
PROFIT/(LOSS) BEFORE TAX	822	1,020	1,495	(1,627)	1,710
Income tax expense	(70)	(249)	26	(5)	(298)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS	752	771	1,521	(1,632)	1,412
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS	-	-	-	-	-
PROFIT FOR THE YEAR	752	771	1,521	(1,632)	1,412
Parent Company	751	771	1,522	(1,633)	1,411
Non-controlling interests	1	-	(1)	1	1

(1) Includes results generated by ENEL Green Power España, S.L.U. (EGPE) since the date of the takeover, 27 July 2016 (see Notes 5.4 and 11.1). Also, include reversals of impairment of property, plant and equipment for Euros 7 million and Euros 101 million in reversals due to the impairment of trade bad debts (see Notes 6 and 13).

(2) Includes impairment losses corresponding to the impairment of property, plant and equipment in the amount of Euros 29 million, Euros 5 million to reversals from the impairment of intangible assets and Euros 3 million related to impairment provisions arising from commercial insolvencies (see Notes 6, 8 and 13).

(3) Includes the recognition of an impairment loss of Euros 72 million (see Notes 5.4 and 11.1).

Millions of Euros

	31 December 2016				
	Generation and Supply	Distribution	Structure	Consolidated adjustments and eliminations	Total
ASSETS					
Non-current assets	13,562	12,922	25,421	(26,380)	25,525
Property, plant and equipment	10,073	11,809	11	(2)	21,891
Investment property	-	3	17	-	20
Intangible assets	901	150	121	-	1,172
Goodwill (Note 5.4)	296	2	-	-	298
Investments accounted for using the equity method	186	22	-	-	208
Non-current financial assets (Note 5.4)	1,478	528	25,105	(26,399)	712
Deferred tax assets	628	408	167	21	1,224
Current assets	4,080	1,219	2,726	(2,590)	5,435
Inventories	1,154	48	-	-	1,202
Trade and other receivables	2,680	888	1,135	(1,251)	3,452
Current financial assets	68	276	1,358	(1,339)	363
Cash and cash equivalents	178	7	233	-	418
Non-current assets held for sale and discontinued operations	-	-	-	-	-
TOTAL ASSETS	17,642	14,141	28,147	(28,970)	30,960
EQUITY AND LIABILITIES					
Equity	4,858	1,619	17,423	(14,812)	9,088
Of the Parent	4,725	1,615	17,425	(14,813)	8,952
Non-controlling interests	133	4	(2)	1	136
Non-current liabilities	8,011	10,467	7,454	(11,581)	14,351
Deferred Income	50	4,689	-	(27)	4,712
Non-current provisions (1)	2,067	1,135	406	106	3,714
Non-current financial debt	5,028	3,862	6,986	(11,653)	4,223
Other non-current Liabilities	166	434	10	(9)	601
Deferred tax liabilities	700	347	52	2	1,101
Current liabilities	4,773	2,055	3,270	(2,577)	7,521
Current financial debt	429	5	2,048	(1,338)	1,144
Current provisions	440	69	58	-	567
Trade and other payables	3,904	1,981	1,164	(1,239)	5,810
Liabilities associated with non-current assets classified as held for sale and discontinued operations	-	-	-	-	-
TOTAL EQUITY AND LIABILITIES	17,642	14,141	28,147	(28,970)	30,960

34.2.3. Segment Information: Consolidated statements of cash flow for 2017 and 2016.

Millions of Euros

Statement of Cash Flows	2017			
	Generation and Supply	Distribution	Structure, services and adjustments	TOTAL ⁽¹⁾
Net cash flows from operating activities	725	1,437	276	2,438
Net cash flows used in investing activities	(29)	(701)	(385)	(1,115)
Net cash flows used in financing activities	(690)	(737)	85	(1,342)

(1) See Note 33.

Millions of Euros

Statement of Cash Flows	2016			
	Generation and Supply	Distribution	Structure, services and adjustments	TOTAL ⁽¹⁾
Net cash flows from operating activities	1,738	1,011	246	2,995
Net cash flows used in investing activities	(2,268)	(477)	428	(2,317)
Net cash flows used in financing activities	506	(531)	(581)	(606)

(1) See Note 33.

35. Related-party balances and transactions

Related parties are parties over which ENDESA, directly or indirectly via one or more intermediate companies, exercises control or joint control or has significant influence, or which are key members of the ENDESA management team.

Key members of the ENDESA management team are those with the authority and responsibility to plan, direct and control ENDESA's business either directly or indirectly, including any member of the Board.

Transactions between the Company and its Subsidiaries and Joint Operation Entities, which are related parties, form part of the Company's normal business activities (in terms of their purpose and conditions) and have been eliminated on consolidation. Therefore, they are not disclosed in this Note.

For information purposes, all companies comprising the ENEL Group and not included in ENDESA's Consolidated Financial Statements were considered significant shareholders.

The amount of transactions carried out in 2017 with other related parties of certain members of the Board of Directors combined does not exceed Euros 14 million. These transactions correspond to the Company's normal business activities and were in all cases carried out under normal market conditions (Euros 12 million in 2016).

All transactions with related parties are at arm's length.

35.1. Expenses and income and other transactions

Significant balances and transactions carried out with related parties in 2017 and 2016, are as follows:

35.1.1. Expenses and income

Millions of Euros					
	2017				
	Significant shareholders	Directors and senior management personnel	ENDESA employees, companies or entities	Other related parties	Total
Finance expenses	94	-	-	-	94
Management or cooperation agreements	20	-	-	-	20
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	36	-	-	12	48
Purchase of finished goods and work in progress	264	-	-	-	264
Valuation adjustments for uncollectible or doubtful debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	181	-	-	-	181
TOTAL EXPENSES	595	-	-	12	607
Finance income	1	-	-	-	1
Management or cooperation agreements	1	-	-	-	1
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	1	-	-	-	1
Rendering of services	14	-	-	2	16
Sale of finished goods and work in progress	42	-	-	-	42
Gains on derecognition or disposal of assets	-	-	-	-	-
Other income ⁽¹⁾	61	-	-	-	61
TOTAL INCOME	120	-	-	2	122

(1) Includes Euros 11 million recognised under "Other comprehensive income".

Millions of Euros

	2016				
	Significant shareholders	Directors and senior management personnel	ENDESA employees, companies or entities	Other related parties	Total
Finance expenses	93	-	-	-	93
Management or cooperation agreements	42	-	-	-	42
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	156	-	-	9	165
Purchase of finished goods and work in progress	188	-	-	-	188
Valuation adjustments for uncollectible or doubtful debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	189	-	-	-	189
TOTAL EXPENSES	668	-	-	9	677
Finance income	-	-	-	-	-
Management or cooperation agreements	6	-	-	-	6
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	5	-	-	-	5
Rendering of services	9	-	-	2	11
Sale of finished goods and work in progress	68	-	-	-	68
Gains on derecognition or disposal of assets	-	-	-	-	-
Other income ⁽¹⁾	102	-	-	-	102
TOTAL INCOME	190	-	-	2	192

(1) Including Euros 29 million recognised under "Other comprehensive income".

The transactions with related parties included in "Other expenses" in 2017 and 2016 were the following:

Millions of Euros

	Notes	2017	2016
Negative changes in the fair value of the derivative financial instruments for electricity and other energy products.		112	54
Power Purchased		69	66
Losses contributed by ownership of 40% in ENEL Green Power España, S.L.U. (EGPE) accounted for using the equity method until its takeover date	2.3.1, 2.4, 5.4 y 11.1	-	69
TOTAL		181	189

The transactions with related parties included in "Other income" in 2017 and 2016 were the following:

Millions of Euros

	Notes	2017	2016
Positive changes in the fair value of the derivative financial instruments for electricity and other energy products.		55	94
Power Revenue		6	2
Positive Results Contributed by ENEL Insurance N.V. until the date of its sale	2.5.2 y 11.2	-	6
TOTAL		61	102

35.1.2. Other transactions

Millions of Euros

			2017		
	Notes	Significant shareholders	Directors and senior management personnel	ENDESA employees, companies or entities	Other related parties
					Total
Continuing operations					
Purchase of property, plant and equipment, intangible assets or other assets	5.1	353	-	-	353
Financing agreements (lender)		-	1	-	1
Finance leases (lessor)		-	-	-	-
Repayment or cancellation of loans and leases (lessor)		-	-	-	-
Sale of property, plant and equipment, intangible assets and other Assets		-	-	-	-
Financing agreements (borrower)	18.2.2	3,000	-	-	3,000
Finance leases (lessee)		-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)		-	-	-	-
Guarantees provided		-	7	-	7
Guarantees received	12.2	114	-	-	114
Commitments acquired	6.1 and 12.1	118	-	-	118
Commitments/guarantees cancelled		-	-	-	-
Dividends and other distributions	15.1.9	989	-	-	989
Other transactions		-	-	-	-

Millions of Euros

			2016		
	Notes	Significant shareholders	Directors and senior management personnel	ENDESA employees, companies or entities	Other related parties
					Total
Continuing operations					
Purchase of property, plant and equipment, intangible assets or other assets		224	-	-	224
Assets					
Financing agreements (lender)		-	-	-	-
Finance leases (lessor)		-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)		-	-	-	-
Sale of property, plant and equipment, intangible assets or other assets		-	-	-	-
Financing Agreements (borrower)	18.2.2	3,000	-	-	3,000
Finance leases (lessee)		-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)		200	-	-	200
Guarantees provided		-	7	-	7
Guarantees received	12.2	130	-	-	130
Commitments acquired	6.1 and 12.1	133	-	-	133
Commitments/guarantees cancelled		-	-	-	-
Dividends and other distributions	15.1.9	761	-	-	761
Other transactions		-	-	-	-

At 31 December 2017 and 2016, the most significant balances under other transactions with related parties are as follows:

- Purchase of tangible assets, intangible assets or other assets: in 2017, include Euros 246 million corresponding to the acquisition of the systems and telecommunications activity (ICT) (see Note 5.1).
- Financing Agreements (Borrower): Outstanding balance on the inter-company loan arranged with ENEL Finance International, B.V. of Euros 3,000 million.
- Committed and irrevocable credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000 million, which was renewed on 30 June 2017 and which at that date had not been drawn down (see Note 18.2.2).
- Uncommitted inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,500 million, which was renewed on 28 December 2017 and which at that date had not been drawn down (see Note 18.2.2).
- Guarantees received: Guarantee received from ENEL, S.p.A. of USD 137 million (approximately Euros 114 at 31 December 2017 and 130 million Euros at 31 December 2016) for compliance with the agreement to purchase liquefied natural gas from Corpus Christi Liquefaction, LLC (see Note 12.2).

- Commitments acquired: Include the commitment to acquire smart meters for the amount of Euros 53 million (see Note 6.1) and the commitment to acquire inventories of CO₂ emission allowances for Euros 65 million (see Note 12.1) (Euros 115 million and Euros 18 million, respectively, at 31 December 2016).
- Dividends and other distributions: Dividends paid to ENEL Iberia, S.L.U. in both years (see Note 15.1.9).

In 2017 and 2016, the Directors, or persons acting on their behalf, have not carried out transactions with the Company (or its other subsidiaries) that do not correspond to the normal course of business or were not carried out in keeping with prevailing market conditions.

35.1.3. Other information

At 31 December 2017 and 2016, balances with significant shareholders are as follows:

Millions of Euros

	Notes	31 December 2017	% of Consolidated statement of financial position	31 December 2016	% of Consolidated statement of financial position
Non-current financial assets		40	6	30	5
Trade receivables	13	167	5	396	13
Current income tax assets	3n	184	83	366	92
Cash and cash equivalents		-	-	-	-
ASSETS		391	1	792	3
Non-current interest-bearing loans and borrowings	18.2.2	3,000	68	3,006	71
Other non-current liabilities		22	3	8	1
Current interest-bearing loans and borrowings		-	-	-	-
Suppliers and other payables	15.1.9	1,078	18	971	18
Current income tax liabilities	3n	163	96	317	95
LIABILITIES		4,263	14	4,302	14

35.2. Associates, joint ventures and joint operations entities

The following are the details at 31 December 2017 and 2016 of trade receivables for sales and services, loans and guarantees to Associates, Joint Ventures and Joint Operation Entities:

Millions of Euros

	Notes	Associates		Joint Ventures		Joint Operation Entities	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade receivables	13	5	3	1	-	-	-
Credits	19.1.1	67	68	-	-	4	4
Guarantees issued		-	-	-	-	-	-

In 2017 and 2016 transactions made with associates, joint ventures and joint operation entities not eliminated on consolidation are as follows:

Millions of Euros

	Associates		Joint Ventures		Joint Operation Entities	
	2017	2016	2017	2016	2017	2016
Revenue	2	-	1	1	-	-
Expenses	(13)	(1)	(23)	(23)	(38)	(49)

35.3. Directors and Senior Management personnel

35.3.1. Remuneration of the Board of Directors

Article 41 of the corporate bylaws states that *“the remuneration of Directors will comprise the following items: a fixed monthly salary and per diems for attendance at each meeting of the company’s management bodies and their committees.*

Maximum global and annual compensation, for the Board as a whole and including all aforementioned items, shall be established by the General Shareholders’ Meeting and will remain in effect until it resolves upon an amendment thereof.

The Board itself shall be in charge of determining the exact amount to be paid in each fiscal year, subject to the limits set forth by the General Shareholders’ Meeting, as well as distributing such amount between the aforementioned items and between the directors in the manner, time and proportion as freely determined, taking into account the functions and responsibilities entrusted to each Director, whether they belong to any of the Board’s Committees and all other relevant objective circumstances.

Without prejudice to the foregoing, article 30 of the Board of Directors’ Regulations states that directors, regardless of their type of directorship, can waive the right to receive remuneration based on a fixed monthly allocation and/or per diems to attend meetings of the Board of Directors, Executive Committee and/or Committees.

The amount of said per diem shall be, at the most, the amount which, in accordance with the above paragraphs, is determined to be the fixed monthly allocation. The Board of Directors may, within such limit, determine the amount of the allowances.

The remuneration contemplated in the preceding sections, deriving from membership on the Board of Directors, shall be compatible with other remuneration, indemnity payments, contributions to insurance schemes or any other professional or labour earnings pertaining to the Directors for any other executive or advisory duties which, as the case may be, they perform for the company other than those of collegiate supervision and decision-making characteristic of their status as Directors, which shall be subject to the appropriate applicable legal scheme.

Without prejudice to the above-mentioned remunerations, the Executive Directors remuneration may also consist of the transfer of Company shares, options over them or remuneration based on the value of the shares. The application of this remuneration model requires the agreement of the General Shareholders’ Meeting, expressing, where appropriate, the maximum number of shares to be assigned during each financial year as part of this remuneration system, the strike price and the system used to calculate the strike price of share options, the value of the shares taken as a reference, when appropriate, the term of the remuneration plan and any other conditions deemed appropriate.

Members of the Board of Directors of ENDESA, S.A. therefore received remuneration in their capacity as Directors of the Company:

- In 2017, the monthly fixed salary for each Director was Euros 15.6 million gross.
- In 2016, the monthly fixed salary for each Director was Euros 15.6 thousand, gross. However in 2016, the fixed monthly emolument of the posts of Chairman of the Audit and Compliance Committee (CAC) and of the Appointments and Remuneration Committee (CNR) was increased by Euros 1 thousand gross per month, and the remuneration of the Coordinating Director was increased by Euros 2.1 thousand gross per month.
- The per diems for attendance at meetings of the Board of Directors, Executive Committee, Appointments and Remuneration Committee (CNR), and Audit and Compliance Committee amounted to Euros 1.5 thousand gross each in 2017 and 2016.
- The members of the Board of Directors and executive directors receive remuneration for performing duties other than in their capacity as directors in accordance with the salary structure of senior management of ENDESA. The main components of this remuneration are:

- Fixed annual remuneration: cash remuneration paid monthly in accordance with the complexity and responsibility of the functions entrusted.
- Short-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with annual targets established through the Company's assessment systems.
- Long-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with multi-year targets.
- Social and other benefits: remuneration (normally non-cash) received in accordance with certain, special and specific requirements determined voluntarily, legally, contractually or through collective bargaining.

Fixed remuneration

Details of the annual fixed remuneration received by the members of the Board of Directors, based on the post held, in 2017 and 2016 are as follows:

Thousands of Euros				
	2017		2016	
	Salary	Fixed remuneration	Salary	Fixed remuneration
Borja Prado Eulate	1,132	188	1,132	188
Francesco Starace	-	-	-	-
José Bogas Gálvez	737	-	700	-
Alejandro Echevarría Busquet ⁽¹⁾	-	188	-	197
Livio Gallo ⁽²⁾	-	-	-	-
Alberto de Paoli	-	-	-	-
Helena Revoredo Delvecchio	-	188	-	188
Miquel Roca Junyent ⁽³⁾	-	225	-	225
Enrico Viale	-	-	-	-
Ignacio Garralda Ruiz de Velasco ⁽⁴⁾	-	200	-	191
Francisco de Lacerda	-	188	-	188
Maria Patrizia Grieco ⁽⁵⁾	-	128	-	-
TOTAL	1,869	1,305	1,832	1,177

(1) Chairman of the Appointments and Remuneration Committee (CNR) until September 2016.

(2) Stepped down in April 2017.

(3) Coordinating Director. Chairman of the Audit and Compliance Committee until September 2016. Chairman of the Appointments and Remuneration Committee from October 2016.

(4) Chairman of the Audit and Compliance Committee from October 2016.

(5) Appointed in April 2017.

Variable remuneration

The variable remuneration in 2017 and 2016 by the Chairman and CEO, for performing their executive tasks, are those itemised below:

Thousands of Euros				
	2017		2016	
	Short term	Long term	Short term	Long term
Borja Prado Eulate	783	1,023	822	853
José Bogas Gálvez	497	846	522	705
TOTAL	1,280	1,869	1,344	1,558

Attendance fees

Per diems for attendance at each meeting of the Board of Directors and of its Committees in 2017 and 2016 are as follows:

Thousands of Euros

	2017		2016	
	ENDESA, S.A.	Other companies	ENDESA, S.A.	Other companies
Borja Prado Eulate	18	-	18	-
Francesco Starace	-	-	-	-
José Bogas Gálvez	-	-	-	-
Alejandro Echevarría Busquet ⁽¹⁾	37	-	47	-
Livio Gallo ⁽²⁾	-	-	-	-
Alberto de Paoli	-	-	-	-
Helena Revoredo Delvecchio	37	-	42	-
Miquel Roca Junyent ⁽³⁾	45	-	51	-
Enrico Viale	-	-	-	-
Ignacio Garralda Ruiz de Velasco ⁽⁴⁾	46	-	51	-
Francisco de Lacerda	46	-	51	-
Maria Patrizia Grieco ⁽⁵⁾	13	-	-	-
TOTAL	242	-	260	-

(1) Chairman of the Appointments and Remuneration Committee until September 2016.

(2) Stepped down in April 2017.

(3) Coordinating Director. Chairman of the Audit and Compliance Committee until September 2016. Chairman of the Appointments and Remuneration Committee from October 2016.

(4) Chairman of the Audit and Compliance Committee from October 2016.

(5) Appointed in April 2017.

Other components

The Executive Directors, as well as the remaining senior executives, receive remuneration in kind, including a group healthcare policy subsidising 100% of the cost of the payment of the holder and dependent family members, the assignment of a company vehicle under a renting system, together with the benefit of electricity supplied at an employee rate.

In 2017, this totalled Euros 86 thousand (Euros 89 thousand in 2016).

Advances and loans

At 31 December 2017 and 2016, loans for the amount of Euros 396 thousand had been extended to Executive Directors, of which Euros 230 thousand correspond to loans bearing an average interest rate of 0.402% and Euros 166 thousand to interest-free loans (interest subsidies are treated as remuneration in cash).

Repayment of the principal will be made over the working life of the employee, with full cancellation when they leave the company.

Pension funds and schemes: contributions

During the year, the contribution to funds and pension plans of Executive Directors totalled Euros 600 thousand (Euros 592 thousand in 2016).

Pension funds and schemes: obligations assumed

At 31 December 2017, Executive Directors hold accumulated fund and pension plan rights for the amount of Euros 12,815 thousand (Euros 11,741 thousand in 2016).

Life and accident insurance premiums

Through the Company, Executive Directors have life and accident insurance policy that guarantees certain capital and/or income according to the contingency in question (cover for disability and death). In 2017, the premium totalled Euros 249 thousand (Euros 255 thousand in 2016).

Guarantees provided by the Company to Senior Management Personnel

At 31 December 2017, as regards remuneration, the Company had guarantees on behalf of the Chief Executive Officer amounting to Euros 6,890 thousand to cover early retirement entitlements (EUR 6,987 thousand at 31 December 2016).

35.3.2. Remuneration of senior management personnel

Details of members of senior management who are not Executive Directors.

Name	Senior executives in 2017
	Position ⁽¹⁾
Alberto Fernández Torres	General Manager - Communication
Alvaro Luis Quiralte Abelló	General Manager - Energy Management
Andrea Lo Faso	General Manager - Human Resources and Organisation
Enrique de las Morenas Moneo	General Manager - Renewable Energies
Francesco Amadei	General Manager - Infrastructure and Networks
Francisco de Borja Acha Besga	General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs
Javier Uriarte Monereo	General Manager - Supply
José Casas Marín	General Manager - Institutional Relations and Regulation
José Luis Puche Castillejo	General Manager - Media
Josep Trabado Farré ⁽²⁾	General Manager of E-Solutions
Juan M ^a Moreno Mellado	General Manager - Nuclear Power
Luca Minzolini	General Manager - Audit
Manuel Fernando Marín Guzmán	General Manager - ICT
Manuel Morán Casero	General Manager - Generation
María Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi	General Manager - Administration, Finance and Control

(1) List of persons included in this table as per the definition of senior executive in CNMV Circular 5/2013, of 12 June.

(2) Joined on 19 June 2017.

Name	Senior executives in 2016
	Position ⁽¹⁾
Alberto Fernández Torres	General Manager - Communication
Alvaro Luis Quiralte Abelló	General Manager - Energy Management
Andrea Lo Faso	General Manager - Human Resources and Organisation
Enrique de las Morenas Moneo ⁽²⁾	General Manager - Renewable Energies
Enrique Durand Baquerizo ⁽⁵⁾	General Manager - Audit
Francesco Amadei	General Manager - Infrastructure and Networks
Francisco de Borja Acha Besga	General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs
Javier Uriarte Monereo	General Manager - Supply
José Casas Marín	General Manager - Institutional Relations and Regulation
José Luis Puche Castillejo	General Manager - Media
José M ^a Grávalos Lasuen ⁽³⁾	General Manager - Nuclear Power
Juan M ^a Moreno Mellado ⁽⁴⁾	General Manager - Nuclear Power
Luca Minzolini ⁽⁶⁾	General Manager - Audit
Manuel Fernando Marín Guzmán	General Manager - ICT
Manuel Morán Casero	General Manager - Generation
María Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi	General Manager - Administration, Finance and Control

(1) List of persons included in this table as per the definition of senior executive in CNMV Circular 5/2013, of 12 June.

(2) Joined on 1 August 2016.

(3) Left on 2 January 2016.

(4) Joined on 1 January 2016.

(5) Left on 1 May 2016.

(6) Joined on 1 May 2016.

Remuneration of senior management

Details of the remuneration in 2017 and 2016 of senior management members who are not, in turn, Executive Directors has been as follows:

Thousands of Euros

	Remuneration			
	At the Company		For membership of boards of directors of ENDESA Group companies	
	2017	2016	2017	2016
Fixed remuneration	5,636	5,354	-	-
Variable remuneration	6,268	6,268	-	-
Per diems for attendance	-	-	-	-
Bylaw-stipulated emoluments	-	-	-	-
Options on shares and other financial instruments	-	-	-	-
Other	540	1,312	-	-
TOTAL	12,444	12,934	-	-

Thousands of Euros

	Other Benefits			
	At the Company		For membership of boards of directors of ENDESA Group companies	
	2017	2016	2017	2016
Advances	576	437	-	-
Loans granted	153	153	-	-
Pension funds and schemes: contributions	1,082	1,073	-	-
Pension funds and schemes: obligations assumed	19,630	17,028	-	-
Life and accident insurance premiums	230	204	-	-

Guarantees provided by the Company to senior management personnel

At 31 December 2017 and 2016, in terms of remuneration, the Company had not issued any guarantees to senior management members, who are not, in turn, Executive Directors.

35.3.3. Guarantee clauses: Board of Directors and senior management personnel

Guarantee clauses for dismissal or changes of control

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee (CNR) and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management personnel, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

The regime for these clauses is as follows:

- Termination of the employment relationship:
 - By mutual agreement: termination benefit equal to an amount from 1 to 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the Executive Director contracts.
 - At the unilateral decision of the executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other causes for compensation for termination foreseen in Royal Decree 1382/1985 of 1 August 1985.
 - As a result of termination by the Company: termination benefit equal to that described in the first point.
 - At the decision of the Company based on the serious wilful misconduct or negligence of the executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

- Post-contractual non-competition clause: In the vast majority of contracts, senior management personnel are required not to engage in a business activity in competition with ENDESA for a period of 2 years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment

At 31 December 2017 and 2016, ENDESA had 13 executive directors and senior managers with guarantee clauses in their employment contracts.

35.3.4. Other disclosures concerning the Board of Directors

To increase the transparency of listed companies, the members of the Board of Directors have disclosed, to the best of their knowledge, the direct or indirect stakes they and their related parties hold in companies with the same, analogous or similar corporate purpose as that of ENDESA, S.A., and the positions or duties they perform therein.

At 31 December 2017				
Director	Personal or company tax ID	Company	% ownership	Position
Borja Prado Eulate	B85721025	ENEL Iberia, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00117658	Chief Executive Officer and General Manager
Francesco Starace	B85721025	ENEL Iberia, S.L.U.	-	Chairman
José Bogas Gálvez	B85721025	ENEL Iberia, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogas, S.A.	-	Chairman
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Enrico Viale	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	00811720580	ENEL, S.p.A.	0,00007769	Head of Global Thermal Generation, ENEL
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Ignacio Garralda	00811720580	ENEL, S.p.A.	0,00027540	-
Maria Patrizia Grieco	00811720580	ENEL, S.p.A.	-	Chairman

At 31 December 2016				
Director	Personal or company tax ID	Company	% ownership	Position
Borja Prado Eulate	B85721025	ENEL Iberia, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00117658	Chief Executive Officer and General Manager
Francesco Starace	B85721025	ENEL Iberia, S.L.U.	-	Chairman
José Bogas Gálvez	B85721025	ENEL Iberia, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogas, S.A.	-	Chairman
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Alberto de Paoli	06377691008	ENEL Italia, S.R.L.	-	Director
Livio Gallo	00811720580	ENEL, S.p.A.	0,00017015	Head of Infrastructure and Global Networks
Livio Gallo	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	00811720580	ENEL, S.p.A.	0,00007769	Head of Global Thermal Generation, ENEL
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Ignacio Garralda	00811720580	ENEL, S.p.A.	0,00027540	-

In accordance with Article 229 of the Corporate Enterprises Act, the direct or indirect situations of conflict of interest involving members of the Board of Directors with the interest of the Company, along with how they were handled in 2017, were as follows:

- The Executive Directors, in their capacity as Directors of ENEL Iberia S.L.U., appointed by Enel, S.p.A., had conflicts of interest when authorising transactions with Enel, S.p.A. or Enel Group companies. In all the situations arising in 2017, the Executive Directors did not participate in the related items on the agenda of the Board of Directors meeting.
- The Proprietary Directors, appointed by ENEL, S.p.A., had a conflict of interest when authorising transactions with ENEL, S.p.A. or ENEL Group companies. In all the situations arising in 2017, the Proprietary directors did not participate in the related items on the agenda of the Board of Directors meeting.
- Helena Revoredo Delvecchio is Chairman of Prosegur Compañía de Seguridad, S.A. and performs her functions as an independent director of ENDESA S.A. without prejudice to the possible commercial relationship between the Prosegur and ENDESA Groups. In 2017, the Prosegur Group arranged a security and surveillance service provision agreement with Group Endesa for the latter's non-material facilities in Spain. The services were awarded by ENDESA S.A.'s Board of Directors, based on the results of the corresponding tender processes, without the involvement of the Director, pursuant to the legislation applicable to conflicts of interests.

Distribution by gender: at 31 December 2017, the Board of Directors of ENDESA, S.A. was composed of 11 directors, 2 of which are women. At 31 December 2016, there were 11 Directors, 1 of which was a woman.

In 2017 and 2016 there were no damages caused by acts or omissions of the Directors that would have required use to be made of the third-party liability insurance premium held through the Company. This policy insures both the Company's directors and employees with management responsibilities.

In 2017, this premium totalled Euros 80 thousand (Euros 42 thousand in 2016).

35.3.5. Share-based payment schemes tied to the ENDESA, S.A. share price

ENDESA's variable long-term remuneration is articulated through the so-called Loyalty Plan, whose main purpose is to strengthen the commitment of employees, who occupy positions of greater responsibility in achieving the Group's strategic objectives. The Plan is structured through successive triennial programs, which start every year from 1 January 2010. Since 2014, the plans have foreseen a deferral of the payment and the need for the Executive to be active on the date of liquidation thereof; and payments are made on 2 dates: in the year following the end of the Plan, 30% of the incentive will be paid, and the remaining 70%, if applicable, 2 years after the end of the Plan.

Within the framework of the ENDESA Loyalty Plan, the Company's General Shareholders' Meeting, held on 26 April 2016, approved certain long-term remuneration schemes for 2015-2017 and 2016-2018. Further, the Company's General Shareholders' Meeting, held on 26 April 2017, approved long-term remuneration schemes for 2017-2019.

These three plans are linked, among other indicators, to share price performance and are directed at the Chairman, the CEO and ENDESA Executives with strategic responsibility.

Specifically, the plan referred to above have the following objectives:

- a) The "Total Shareholders' Return (TSR) of ENDESA" objective, defined as the average value of the TSR of ENDESA as compared with the average value of the TSR of the Euro-Stoxx Utilities Index, selected as the comparable group for the accrual period.

This indicator measures the total return of a share as the sum of its parts:

- i. Capital gains: the relation between the change in the share price (the difference between the price recorded at the end and at the beginning of the reference period) and the value established at the start of the period;
 - ii. Reinvested dividends: the relationship between the dividends per share distributed in the reference period and the share price at the start of the period.
- b) The "Return on Average Capital Employed" (ROACE) objective, defined as ENDESA's accumulated ROACE in the accrual period, represented by the relationship between EBIT and average net capital invested accumulated during the period.

There is an ex-post control over long-term variable remuneration in the form of a malus clause that permits the company not to pay variable remuneration accrued and not received, in addition to a clawback clause which obliges holders of these plans to repay the variable remuneration received in the event that data used for its calculation or payment are proved to be clearly erroneous after the settlement date.

The Appointments and Remuneration Committee (CNR) may submit a motion to the Board of Directors not to pay or claim a refund of variable components of remuneration when payment was based on data which later proved to be incorrect.

The amount accrued in relation to these loyalty plans in 2017 for all Directors totalled Euros 8 million (Euros 13 million in 2016).

36. Guarantees to third parties, other contingent assets and liabilities and other commitments

36.1. Direct and indirect guarantees

At 31 December 2017, property, plant and equipment amounting to Euros 159 million (Euros 178 million at 31 December 2016) had been pledged to secure financing received from third parties (see Notes 6.1, 15.1.12 and 18.2.3).

At 31 December 2017 and 2016, the breakdown of guarantees granted to ENDESA's associated companies, joint ventures and joint operation entities is detailed in Note 35.2.

ENDESA considers that any additional liabilities arising from guarantees given at 31 December 2017 and 2016 would not be material.

36.2. Other commitments

There are no further commitments to those described in Notes 6, 8, 12 and 19.1.3 of these Consolidated Financial Statements.

37. Audit fees

Details of fees for the services provided in 2017 and 2016 by the auditors of the annual financial statements of the various ENDESA companies are as follows:

	2017		2016	
	Ernst & Young	Other auditors of subsidiaries	Ernst & Young	Other auditors of subsidiaries
Audit of the financial statements	2,382	-	1,788	7
Audits other than of the financial statements and other audit-related services	1,755	-	1,611	-
Other non-audit services	-	-	182	-
TOTAL	4,137	-	3,581	7

The figures reported in the table above include all of the fees accrued for the services rendered during the years ended 2017 and 2016, irrespective of when they were actually invoiced.

38. Personnel

ENDESA's final and average headcounts, by segment, professional category and gender, are as follows:

	Period-end headcount					
	31 December 2017			31 December 2016		
	Men	Women	Total (1)	Men	Women	Total
Executives	234	46	280	244	48	292
Graduates	2,117	990	3,107	1,944	864	2,808
Middle management and manual workers	5,107	1,212	6,319	5,338	1,256	6,594
TOTAL EMPLOYEES	7,458	2,248	9,706	7,526	2,168	9,694

(1) Includes the final workforce of the systems and telecommunications activity (ICT) of ENDESA Medios y Sistemas, S.L.U. (319 employees) (see Note 5.1).

Number of employees

	Period-end headcount					
	31 December 2017			31 December 2016		
	Men	Women	Total	Men	Women	Total
Generation and supply	4,083	1,024	5,107	4,140	989	5,129
Distribution	2,491	429	2,920	2,707	467	3,174
Structure and other ⁽²⁾	884	795	1,679	679	712	1,391
TOTAL EMPLOYEES	7,458	2,248	9,706	7,526	2,168	9,694

(1) Includes the final workforce of the systems and telecommunications activity (ICT) of ENDESA Medios y Sistemas, S.L.U. (319 employees) (see Note 5.1).

(2) Structure and services.

Number of employees

	Average headcount					
	2017 ⁽¹⁾			2016 ⁽²⁾		
	Men	Women	Total	Men	Women	Total ⁽¹⁾
Executives	248	47	295	253	47	300
Graduates	2,131	979	3,110	1,897	831	2,728
Middle management and manual workers	5,222	1,229	6,451	5,509	1,282	6,791
TOTAL EMPLOYEES	7,601	2,255	9,856	7,659	2,160	9,819

(1) Includes the average workforce of the systems and telecommunications activity (ICT) of ENDESA Medios y Sistemas, S.L.U. (329 employees), ENEL Green Power España, S.L.U. (EGPE) (174 employees) and Eléctrica del Ebro, S.A.U. (20 employees) (see Notes 5.1, 5.4 and 5.5).

(2) Includes the average workforce of ENEL Green Power España, S.L.U. (EGPE) (86 employees) and Eléctrica del Ebro, S.A.U. (8 employees) since their respective takeover dates (see Notes 5.4 and 5.5).

Number of employees

	Average headcount					
	2017 ⁽¹⁾			2016 ⁽²⁾		
	Men	Women	Total	Men	Women	Total
Generation and supply	4,102	998	5,100	4,127	983	5,110
Distribution	2,582	441	3,023	2,841	474	3,315
Structure and others ⁽³⁾	917	816	1,733	691	703	1,394
TOTAL	7,601	2,255	9,856	7,659	2,160	9,819

(1) Includes the average workforce from the systems and telecommunications activity (ICT) of ENDESA Medios y Sistemas, S.L.U. (329 employees), ENEL Green Power, S.L.U. (EGPE) (189 employees) and Eléctrica del Ebro, S.A.U. (20 employees) (see Notes 5.1, 5.4 and 5.5).

(2) Includes the average workforce of ENEL Green Power España, S.L.U. (EGPE) (86 employees) and Eléctrica del Ebro, S.A.U. (8 employees) since their respective takeover dates (see Notes 5.4 and 5.5).

(3) Structure and services.

The average number of employees in joint operation entities in 2017 and 2016 was 866 and 881, respectively.

The average persons employed in 2017 and 2016 with an incapacity greater than or equal to 33%, per category, is the following:

Number of employees

	Average headcount with disabilities ⁽¹⁾					
	2017			2016		
	Men	Women	Total	Men	Women	Total
Executives	-	-	-	-	-	-
Graduates	16	4	20	13	6	19
Middle management and manual workers	43	17	60	42	17	59
TOTAL EMPLOYEES	59	21	80	55	23	78

(1) 33% or higher.

Number of employees

	Average headcount with disabilities ⁽²⁾					
	2017			2016		
	Men	Women	Total	Men	Women	Total
Generation and supply	20	12	32	19	11	30
Distribution	26	1	27	23	1	24
Structure and other ⁽¹⁾	13	8	21	13	11	24
TOTAL	59	21	80	55	23	78

(1) Structure and services.

(2) 33% or higher.

39. Events after the reporting period

On 3 January 2018, the associate Consorcio Eólico Marino Cabo de Trafalgar, S.L. (in liquidation), in which ENDESA, through its subsidiary ENEL Green Power España, S.L.U. (EGPE) held a 50% stake, was extinguished.

From 1 January 2018 to the date of preparation of these Consolidated Financial Statements, as a result of the award in the renewables auctions held on 17 May 2017 and 26 July 2017, for 540 MW of wind power and 339 MW of photovoltaic power, respectively (see Note 4), the following companies were acquired:

	Date	Transaction	Technology	% Ownership	
				Control	Ownership
Valdecaballeros Solar, S.L.U.	9 January 2018	Acquisition	Photovoltaic	100.00	100.00
Navalvillar Solar, S.L.U.	9 January 2018	Acquisition	Photovoltaic	100.00	100.00
Castiblanco Solar, S.L.U.	9 January 2018	Acquisition	Photovoltaic	100.00	100.00
Aranort Desarrollos, S.L.U.	19 January 2018	Acquisition	Wind	100.00	100.00
Parque Eólico Muniesa, S.L.U.	12 January 2018	Acquisition	Wind	100.00	100.00
Parque Eólico Farlán, S.L.U.	12 January 2018	Acquisition	Wind	100.00	100.00
Bosa del Ebro, S.L.	21 February 2018	Acquisition	Wind	51.00	51.00

The price agreed for all the aforementioned transactions was less than Euros 1 million.

These companies are currently applying for permits and licences to carry out their projects. Therefore, construction work has not yet started on the generation facilities, and consequently no revenue has been generated since the acquisition date.

On 2 February 2018, an agreement was signed, through ENEL Green Power España, S.L.U. (EGPE) for the purchase of Parques Eólicos Gestinver, S.L., a wind power technology company, for Euros 178 million, which is subject to compliance with certain suspensive clauses.

Other than the events described above, no other significant events took place between 31 December 2017 and the date of authorisation for issue of the Consolidated Financial Statements that have not been reflected therein.

40. Explanation added for translation to English

These Consolidated Financial Statements are presented on the basis of IFRSs, as adopted by the European Union. Consequently, certain accounting practices applied by the Group that conform to IFRSs may not conform to other generally accepted accounting principles in other countries. Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevail

Appendix I: ENDESA Companies

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
AGUILÓN 20, S.A.	51.00	51.00	FC	51.00	51.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ALMUSSAFES SERVICIOS ENERGETICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	CHP PLANTS	UNAUDITED
AQUILAE SOLAR, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
ARAGONESA DE ACTIVIDADES ENERGETICAS, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	TERUEL (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	UNAUDITED
ASOCIACIÓN NUCLEAR ASCÓ-VADELLÓS II, A.I.E.	85.41	85.41	PC	85.41	85.41	PC	TARRAGONA (SPAIN)	MANAGEMENT, OPERATION AND ADMINISTRATION OF NUCLEAR PLANTS	ERNST & YOUNG
BAYLIO SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	SEVILLE (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
CEFEIDAS DESARROLLO SOLAR, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
CEPHEI DESARROLLO SOLAR, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
DEHESA DE LOS GUADALUPES SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	SEVILLE (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
DESARROLLO PHOTOSOLAR, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
DISTRIBUIDORA DE ENERGÍA ELÉCTRICA DEL BAGES, S.A.	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	UNAUDITED
DISTRIBUIDORA ELÉCTRICA DEL PUERTO DE LA CRUZ, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	PURCHASE, TRANSMISSION, DISTRIBUTION AND RETAILING OF ELECTRICITY	ERNST & YOUNG
ELÉCTRICA DE JAFRE, S.A.	100.00	100.00	FC	47.46	47.46	EM	GERONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	UNAUDITED
ELECTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	L'AMPOLLA (TARRAGONA)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
EMPRESA CARBONÍFERA DEL SUR, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	EXPLOITATION OF COAL FIELDS	ERNST & YOUNG
ENDESA CAPITAL, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	ISSUANCE OF DEBT INSTRUMENTS	ERNST & YOUNG
ENDESA COMERCIALIZAÇÃO DE ENERGIA, S.A.	100.00	100.00	FC	100.00	100.00	FC	PORTO (PORTUGAL)	MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	ELECTRICITY DISTRIBUTION	ERNST & YOUNG
ENDESA ENERGÍA XXI, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	SERVICES ASSOCIATED WITH THE MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA ENERGÍA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA FINANCIACIÓN FILIALES, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	FINANCING OF THE SUBSIDIARIES OF ENDESA, S.A.	ERNST & YOUNG
ENDESA GENERACIÓN II, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
ENDESA GENERACIÓN NUCLEAR, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	MANAGEMENT OF NUCLEAR ASSETS AND MANAGEMENT, PRODUCTION AND SALE OF ELECTRICITY	UNAUDITED
ENDESA GENERACIÓN PORTUGAL, S.A.	100.00	100.00	FC	100.00	100.00	FC	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION AND RELATED ACTIVITIES	ERNST & YOUNG
ENDESA GENERACIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION AND RETAILING	ERNST & YOUNG
ENDESA INGENIERÍA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	CONSULTANCY AND CIVIL ENGINEERING SERVICES	ERNST & YOUNG
ENDESA MEDIOS Y SISTEMAS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	SERVICES	ERNST & YOUNG
ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	PROVISION OF SERVICES TO ENDESA DISTRIBUCIÓN ELÉCTRICA AND TO ENDESA ENERGÍA	ERNST & YOUNG
ENDESA POWER TRADING LTD.	100.00	100.00	FC	100.00	100.00	FC	LONDON (UK)	TRADING OPERATIONS	ERNST & YOUNG
ENDESA RED, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	DISTRIBUTION ACTIVITIES	ERNST & YOUNG
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	COMBINED HEAT AND POWER AND RENEWABLE ENERGIES	ERNST & YOUNG
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	65.00	65.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	UNAUDITED
ENERGÍA ELÉCTRICA DEL EBRO, S.A. (SOLE-SHAREHOLDER COMPANY) (IN LIQUIDATION)	100.00	100.00	FC	100.00	100.00	FC	L'AMPOLLA (TARRAGONA)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	54.95	54.95	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS DE ARAGÓN I, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	ZARAGOZA (SPAIN)	TRANSMISSION, DISTRIBUTION AND SALE OF ELECTRICITY UNDER THE TARIFF SYSTEM	ERNST & YOUNG
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	66.67	66.67	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	77.00	77.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	80.00	80.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	51.00	51.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	50.50	50.50	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓICAS DE AGAETE, S.L.	80.00	80.00	FC	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	55.00	55.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	60.00	60.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓICAS DE ESCUCHA, S.A.	70.00	70.00	FC	70.00	70.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓICAS EL PUERTO, S.A.	73.60	73.60	FC	73.60	73.60	FC	TERUEL (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓICAS SANTO DOMINGO DE LUNA, S.A.	51.00	51.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EXPLOTACIONES EÓICAS SASO PLANO, S.A.	65.00	65.00	FC	65.00	65.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
FOTOVOLTAICA INSULAR, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
FURATENA SOLAR I, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	SEVILLE (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
GAS Y ELECTRICIDAD GENERACIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	PALMA DE MALLORCA (SPAIN)	ELECTRICITY PRODUCTION	ERNST & YOUNG
GUADARRANQUE SOLAR 4, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION USING RENEWABLE ENERGIES	UNAUDITED
HIDROELÉCTRICA DE CATALUNYA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	ELECTRICITY TRANSMISSION AND DISTRIBUTION	ERNST & YOUNG
HIDROFLAMICELL, S.L.	75.00	75.00	FC	75.00	75.00	FC	BARCELONA (SPAIN)	ELECTRICITY DISTRIBUTION AND SALE	UNAUDITED
HIDROMONDEGO - HIDROELÉCTRICA DO MONDEGO, LDA	100.00	100.00	FC	100.00	100.00	FC	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION AND RETAILING	UNAUDITED
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	51.00	51.00	FC	BADAJOS (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
INTERNATIONAL ENDESA B.V.	100.00	100.00	FC	100.00	100.00	FC	AMSTERDAM (HOLLAND)	INTERNATIONAL FINANCIAL TRANSACTIONS	ERNST & YOUNG
LA PEREDA CO., A.I.E.	33.33	33.33	PC	33.33	33.33	PC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
MINAS DE ESTERCUEL, S.A. (IN LIQUIDATION)	-	-	-	99.65	99.57	FC	MADRID (SPAIN)	MINERAL DEPOSITS	-
MINAS GARGALLO, S.L. (IN LIQUIDATION)	-	-	-	99.91	99.91	FC	MADRID (SPAIN)	MINERAL DEPOSITS	-
NUEVA MARINA REAL ESTATE, S.L.	-	-	-	60.00	60.00	FC	MADRID (SPAIN)	REAL ESTATE ASSET MANAGEMENT AND DEVELOPMENT	-
PARAVENTO, S.L.	90.00	90.00	FC	90.00	90.00	FC	LUGO (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARQUE EÓICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO ARAGON, S.L. (SOLE SHAREHOLDER COMPANY)	-	-	-	100.00	100.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	-
PARQUE EÓICO BELMONTE, S.A.	50.16	50.16	FC	50.16	50.16	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO DE BARBANZA, S.A.	75.00	75.00	FC	75.00	75.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	82.00	82.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	66.33	66.33	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	90.00	90.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	75.50	75.50	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO PUNTA DE TENO, S.A.	52.00	52.00	FC	52.00	52.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	58.00	58.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PEREDA POWER, S.L.	70.00	70.00	FC	70.00	70.00	FC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
PLANTA EOLICA EUROPEA, S.A.	56.12	56.12	FC	56.12	56.12	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGIA RENOVABLE, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	85.00	85.00	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGIAS RENOVABLES III, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	82.89	82.89	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PROMOCIONES ENERGETICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	LEÓN (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SEGUIDORES SOLARES PLANTA 2, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	MURCIA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
SERRA DO MONCOSO-CAMBAS, S.L. (SOLE-SHAREHOLDER COMPANY)	-	-	-	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	-
SISTEMAS ENERGETICOS MANON ORTIGUEIRA, S.A.	96.00	96.00	FC	96.00	96.00	FC	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	ERNST & YOUNG
SOCIEDAD EOLICA DE ANDALUCIA, S.A.	64.73	64.73	FC	64.73	64.73	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOCIEDAD EOLICA LOS LANCES, S.A.	60.00	60.00	FC	60.00	60.00	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOL DE MEDIA NOCHE FOTOVOLTAICA, S.L.	-	-	-	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	-
SUMINISTRO DE LUZ Y FUERZA, S.L.	60.00	60.00	FC	60.00	60.00	FC	GERONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
TRANSPORTES Y DISTRIBUCIONES ELECTRICAS, S.A.	73.33	73.33	FC	73.33	73.33	FC	GERONA (SPAIN)	ELECTRICITY TRANSMISSION	UNAUDITED
UNION ELECTRICA DE CANARIAS GENERACION, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	ELECTRICITY PRODUCTION	ERNST & YOUNG
VIRULEIROS, S.L.	67.00	67.00	FC	67.00	67.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED

FC: Full consolidation; PC: Proportionate consolidation; EM: Equity method.

Appendix II: Joint Ventures and Associates

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
BOIRO ENERGÍA, S.A.	40.00	40.00	EM	40.00	40.00	EM	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	DELOITTE
CARBOPEGO - ABASTECIMIENTOS DE COMBUSTIBLES, S.A.	50.00	50.00	EM	50.00	50.00	EM	LISBON (PORTUGAL)	FUEL SUPPLY	KPMG AUDITORES
CENTRAL HIDRÁULICA GUEJAR-SIERRA, S.L.	33.33	33.33	EM	33.33	33.33	EM	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	GATT AUDITORES
CENTRAL TÉRMICA DE ANLLARES, A.I.E.	33.33	33.33	EM	33.33	33.33	EM	MADRID (SPAIN)	MANAGEMENT OF THE ANLLARES THERMAL POWER PLANT	UNAUDITED
CENTRALES NUCLEARES ALMARAZ-TRILLO, A.I.E.	24.26	23.92	EM	24.26	23.92	EM	MADRID (SPAIN)	MANAGEMENT OF THE ALMARAZ AND TRILLO NUCLEAR PLANTS	KPMG AUDITORES
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	EM	20.00	20.00	EM	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
COMERCIALIZADORA ELÉCTRICA DE CÁDIZ, S.A.	33.50	33.50	EM	-	-	EM	CADIZ (SPAIN)	ELECTRICITY RETAILING	ERNST & YOUNG
COMPANÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	EM	37.51	37.51	EM	SORIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L. (IN LIQUIDATION)	50.00	50.00	EM	50.00	50.00	EM	CADIZ (SPAIN)	SEA WIND FARMS	UNAUDITED
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	EM	25.00	25.00	EM	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	PWC
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	EM	40.00	40.00	EM	LA CORUÑA (SPAIN)	RECYCLING PLANT	DELOITTE
ELCOGAS, S.A.	40.99	40.99	EM	40.99	40.99	EM	CIUDAD REAL (SPAIN)	ELECTRICITY PRODUCTION	DELOITTE
ELECGAS, S.A.	50.00	50.00	EM	50.00	50.00	EM	SANTAREM (PORTUGAL)	COMBINED-CYCLE ELECTRICITY PRODUCTION	KPMG AUDITORES
ELÉCTRICA DE JAFRE, S.A.	100.00	100.00	FC	47.46	47.46	EM	GERONA (SPAIN)	ELECTRICITY DISTRIBUTION AND SUPPLY	UNAUDITED
ELÉCTRICA DE LIJAR, S.L.	50.00	50.00	EM	50.00	50.00	EM	CADIZ (SPAIN)	ELECTRICITY TRANSMISSION AND DISTRIBUTION	AVANTER AUDITORES
ELECTRICIDAD DE PUERTO REAL, S.A.	50.00	50.00	EM	50.00	50.00	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY AND DISTRIBUTION	DELOITTE
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	EM	50.00	50.00	EM	LEÓN (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGIE ELECTRIQUE DE TAHADDART, S.A.	32.00	32.00	EM	32.00	32.00	EM	TANGIERS (MOROCCO)	COMBINED CYCLE PLANT	DELOITTE
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	EM	40.00	40.00	EM	ASTURIAS (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	EM	40.00	40.00	EM	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE LA PATAGONIA, S.A.	50.00	50.00	EM	50.00	50.00	EM	CAPITAL FEDERAL (ARGENTINA)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	EM	40.00	40.00	EM	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	LUJAN AUDITORES
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	50.00	50.00	EM	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ANCERO AUDITORES
EPRESA ENERGÍA, S.A.	50.00	50.00	EM	-	-	-	CADIZ (SPAIN)	ELECTRICITY RETAILING	ERNST & YOUNG
ERECOSALZ, S.L.	33.00	33.00	EM	33.00	33.00	EM	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
GORONA DEL VIENTO EL HIERRO, S.A.	23.21	23.21	EM	23.21	23.21	EM	SANTA CRUZ DE TENERIFE (SPAIN)	DEVELOPMENT AND MAINTENANCE OF THE EL HIERRO POWER PLANT	ERNST & YOUNG
HIDROELÉCTRICA DE OUROL, S.L.	30.00	30.00	EM	30.00	30.00	EM	LA CORUÑA (SPAIN)	HYDROELECTRIC POWER PLANT	DELOITTE
KROMSCHROEDER, S.A.	29.26	29.26	EM	29.26	29.26	EM	BARCELONA (SPAIN)	METER-READING EQUIPMENT	BDO AUDITORES SLP
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	EM	36.50	36.50	EM	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
NUCLEONOR, S.A.	50.00	50.00	EM	50.00	50.00	EM	BURGOS (SPAIN)	ELECTRICITY GENERATION USING NUCLEAR POWER	ERNST & YOUNG
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	EM	33.33	33.33	EM	TERUEL (SPAIN)	CHP PLANTS	UNAUDITED
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	EM	30.00	30.00	EM	MADRID (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	EM	30.00	30.00	EM	MADRID (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PEGOP - ENERGÍA ELÉCTRICA, S.A.	50.00	50.00	EM	50.00	50.00	EM	SANTAREM (PORTUGAL)	OPERATION OF THE PEGO POWER PLANT	KPMG AUDITORES
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	EM	30.00	30.00	EM	BARCELONA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
PROYECTO ALMERÍA MEDITERRÁNEO, S.A. (IN LIQUIDATION)	45.00	45.00	EM	45.00	45.00	EM	MADRID (SPAIN)	INSTALLATION OF SEAWATER DESALINATION PLANT	UNAUDITED
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	EM	33.33	33.33	EM	ALICANTE (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	EM	50.00	50.00	EM	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	EM	45.00	45.00	EM	SEVILLE (SPAIN)	CHP PLANTS	UNAUDITED
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	EM	28.12	28.12	EM	MADRID (SPAIN)	HYDROELECTRIC POWER PLANT	KPMG AUDITORES
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	EM	50.00	50.00	EM	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOTAVENTO GALICIA, S.A.	36.00	36.00	EM	36.00	36.00	EM	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	AUDIESA
SUMINISTRADORA ELÉCTRICA DE CÁDIZ, S.A.	33.50	33.50	EM	33.50	33.50	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY AND DISTRIBUTION	ERNST & YOUNG
TECNATOM, S.A.	45.00	45.00	EM	45.00	45.00	EM	MADRID (SPAIN)	SERVICES TO ELECTRICITY PRODUCTION FACILITIES	ERNST & YOUNG
TEJO ENERGIA - PRODUÇÃO E DISTRIBUIÇÃO DE ENERGIA ELÉCTRICA, S.A.	43.75	43.75	EM	43.75	43.75	EM	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION, TRANSMISSION AND DISTRIBUTION	KPMG AUDITORES
TERMOTEC ENERGÍA, A.I.E. (IN LIQUIDATION)	45.00	45.00	EM	45.00	45.00	EM	VALENCIA (SPAIN)	CHP PLANTS	UNAUDITED
TOLEDO PV, A.I.E.	33.33	33.33	EM	33.33	33.33	EM	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	PWC
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	EM	40.00	40.00	EM	MADRID (SPAIN)	RENEWABLE ENERGY	UNAUDITED
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	EM	40.00	40.00	EM	ALMERIA (SPAIN)	CHP PLANTS	UNAUDITED

FC: Full consolidation; EM: Equity method.

Appendix III: Changes in Consolidation Scope

Subsidiaries and Joint Operation Entities: Inclusions during 2017

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
BAYLIO SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
DEHESA DE LOS GUADALUPES SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ELÉCTRICA DE JAFRE, S.A.	100.00	100.00	FC	47.46	47.46	EM
EXPLORACIONES EÓLICAS SANTO DOMINGO DE LUNA, S.A.	51.00	51.00	FC	-	-	-
FURATENA SOLAR 1, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
SEGUIDORES SOLARES PLANTA 2, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-

FC: Full consolidation; EM: Equity method.

Subsidiaries and Joint Operation Entities: Exclusions during 2017

Company (in alphabetical order)	% Ownership at 31/12/2017			% Ownership at 31/12/2016		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
AQUILAE SOLAR, S.L.	-	-	-	50.00	50.00	PC
CEFEIDAS DESARROLLO SOLAR, S.L.	-	-	-	50.00	50.00	PC
CEPHEI DESARROLLO SOLAR, S.L.	-	-	-	50.00	50.00	PC
DESARROLLO PHOTOSOLAR, S.L.	-	-	-	50.00	50.00	PC
FOTOVOLTAICA INSULAR, S.L.	-	-	-	50.00	50.00	PC
MINAS DE ESTERCUEL, S.A. (IN LIQUIDATION)	-	-	-	99.65	99.57	FC
MINAS GARGALLO, S.L. (IN LIQUIDATION)	-	-	-	99.91	99.91	FC
NUEVA MARINA REAL ESTATE, S.L.	-	-	-	60.00	60.00	FC
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	-	-	-	100.00	100.00	FC
SERRA DO MONCOSO-CAMBAS, S.L. (SOLE SHAREHOLDER COMPANY)	-	-	-	100.00	100.00	FC
SOL DE MEDIA NOCHE FOTOVOLTAICA, S.L.	-	-	-	50.00	50.00	PC

FC: Full consolidation; PC: Proportionate consolidation.

Subsidiaries and Joint Operation Entities: Changes during 2017

Company (in alphabetical order)	% Ownership at 31/12/ 2017			% Ownership at 31/12/2016		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	85.00	85.00	FC
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	82.89	82.89	FC

FC: Full consolidation.

Subsidiaries and Joint Operation Entities: Inclusions during 2016

Company (in alphabetical order)	% Ownership at 31/12/2016			% Ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
AGUILÓN 20, S.A.	51.00	51.00	FC	-	-	-
ALMUSSAFES SERVICIOS ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ELECTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	-	-	-
ENERGÍA DE LA LOMA, S.A. (*)	-	-	-	-	-	-
ENERGÍA ELÉCTRICA DEL EBRO, S.A. (SOLE-SHAREHOLDER COMPANY) (IN LIQUIDATION)	100.00	100.00	FC	-	-	-
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	-	-	-
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	-	-	-
ENERGÍAS DE LA MANCHA ENEMAN, S.A. (*)	-	-	-	-	-	-
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	-	-	-
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	-	-	-
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	-	-	-
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	-	-	-
EÓLICAS DE AGAETE, S.L.	80.00	80.00	FC	-	-	-
EÓLICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	-	-	-
EÓLICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	-	-	-
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	-	-	-
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	-	-	-
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	-	-	-
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	-	-	-
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	-	-	-
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	-	-	-
PARAVENTO, S.L.	90.00	90.00	FC	-	-	-
PARQUE EÓLICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
PARQUE EÓLICO BELMONTE, S.A.	50.16	50.16	FC	-	-	-
PARQUE EÓLICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	-	-	-
PARQUE EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	-	-	-
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	-	-	-
PARQUE EÓLICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	-	-	-
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	-	-	-
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	-	-	-
PARQUE EÓLICO PUNTA DE TENO, S.A.	52.00	52.00	FC	-	-	-
PARQUE EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	-	-	-
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	-	-	-
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A.	85.00	85.00	FC	-	-	-
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A.	82.89	82.89	FC	-	-	-
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
SERRA DO MONCOSO-CAMBÁS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	-	-	-
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	-	-	-
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	-	-	-
VIRULEIROS, S.L.	67.00	67.00	FC	-	-	-

FC: Full consolidation; EM: Equity method.

(*) These companies were consolidated on 27 July 2016 and deconsolidated on 29 December 2016.

Subsidiaries and Joint Operation Entities: Exclusions during 2016

Company (in alphabetical order)	% Ownership at 31/12/2016			% Ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
ENERGIA DE LA LOMA, S.A. (*)	-	-	-	-	-	-
ENERGÍAS DE LA MANCHA ENEMAN, S.A. (*)	-	-	-	-	-	-

(*) These companies were consolidated on 27 July 2016 and deconsolidated on 29 December 2016.

Subsidiaries and Joint Operation Entities: Changes during 2016

Company (in alphabetical order)	% Ownership at 31/12/2016			% Ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
ENDESA GENERACIÓN PORTUGAL, S.A.	100.00	100.00	FC	99.40	99.40	FC
HIDROMONDEGO - HIDROELECTRICA DO MONDEGO, LDA	100.00	100.00	FC	100.00	99.94	FC

FC: Full consolidation.

Associates and Joint Ventures: Companies included for the first time, excluded and changes in 2017

Company (in alphabetical order)	% Ownership at 31/12/ 2017			% Ownership at 31/12/2016		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
Companies included	-	-	-	-	-	-
Companies excluded:	-	-	-	-	-	-
ELECTRICA DE JAFRE, S.A.	100.00	100.00	FC	47.46	47.46	EM
Changes:	-	-	-	-	-	-

FC: Full consolidation; EM: Equity method.

Associates and Joint Ventures: Companies included for the first time, excluded and changes in 2016

Company (in alphabetical order)	% Ownership at 31/12/2016			% Ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
Companies included						
BOIRO ENERGIA, S.A.	40.00	40.00	EM	-	-	-
CENTRAL HIDRÁULICA GÚJAR-SIERRA, S.L.	33.33	33.33	EM	-	-	-
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	EM	-	-	-
COMPANÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	EM	-	-	-
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L.	50.00	50.00	EM	-	-	-
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	EM	-	-	-
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	EM	-	-	-
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	EM	-	-	-
ENERLASA, S.A. (IN LIQUIDATION) (*)	-	-	-	-	-	-
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	EM	-	-	-
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	EM	-	-	-
EÓLICAS DE LA PATAGÓNIA, S.A.	50.00	50.00	EM	-	-	-
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	EM	-	-	-
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	-	-	-
ERECOSALZ, S.L.	33.00	33.00	EM	-	-	-
HIDROELECTRICA DE OUROL, S.L.	30.00	30.00	EM	-	-	-
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	EM	-	-	-
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	EM	-	-	-
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	EM	-	-	-
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	EM	-	-	-
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	EM	-	-	-
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	EM	-	-	-
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	EM	-	-	-
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	EM	-	-	-
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	EM	-	-	-
SOTAVENTO GALICIA, S.A.	36.00	36.00	EM	-	-	-
TERMOTEC ENERGIA, A.I.E. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-
TOLEDO PV, A.I.E.	33.33	33.33	EM	-	-	-
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-
Companies excluded:						
ENEL INSURANCE N.V.	-	-	-	50.00	50.00	EM
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM
ENERLASA, S.A. (IN LIQUIDATION) (*)	-	-	-	-	-	-
Changes:						
CARBOPEGO - ABASTECIMIENTOS DE COMBUSTIBLES, S.A.	50.00	50.00	EM	50.00	49.99	EM
ELECGAS, S.A.	50.00	50.00	EM	50.00	49.70	EM
PEGOP - ENERGIA ELÉCTRICA, S.A.	50.00	50.00	EM	50.00	49.99	EM
TEJO ENERGIA - PRODUÇÃO E DISTRIBUIÇÃO DE ENERGIA ELÉCTRICA, S.A.	43.75	43.75	EM	38.89	38.89	EM

FC: Full consolidation; EM: Equity method.

(*) This company was consolidated on 27 July 2016 and deconsolidated on 30 December 2016.

Appendix IV: Company investments forming part of ENEL Green Power España, S.L.U. (EGPE) at the acquisition date.

Subsidiaries

Company (in alphabetical order)	% Ownership at 27/07/2016			Registered offices	Activity
	Control	Ownership	Consolidation method		
AGUILÓN 20, S.A.	51.00	51.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
ALMUSSAFES SERVICIOS ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	BARCELONA (SPAIN)	CHP PLANTS
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS
ENERGÍA DE LA LOMA, S.A.	64.07	64.07	FC	JAEN (SPAIN)	BIOMASS
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT
ENERGÍAS DE LA MANCHA ENEMAN, S.A.	68.42	68.42	FC	CIUDAD REAL (SPAIN)	BIOMASS
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
EÓLICAS DE AGAETE, S.L.	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
EÓLICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
EÓLICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	TERUEL (SPAIN)	WIND FARM PROJECTS
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	BADAJOS (SPAIN)	PHOTOVOLTAIC PLANT
PARAVENTO, S.L.	90.00	90.00	FC	LUGO (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO BELMONTE, S.A.	50.16	50.16	FC	MADRID (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	MADRID (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO PUNTA DE TENO, S.A.	52.00	52.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS
PARQUE EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A.	85.00	85.00	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A.	82.89	82.89	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LEÓN (SPAIN)	RENEWABLE ENERGY
SERRA DO MONCOSO-CAMBÁS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	LA CORUÑA (SPAIN)	RENEWABLE ENERGY
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS
VIRULEIROS, S.L.	67.00	67.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS

FC: Full consolidation.

Joint ventures and associates

Company (in alphabetical order)	% Ownership at 27/07/2016			Registered offices	Activity
	Control	Ownership	Consolidation method		
BOIRO ENERGÍA, S.A.	40.00	40.00	EM	LA CORUÑA (SPAIN)	RENEWABLE ENERGY
CENTRAL HIDRÁULICA GUEJAR-SIERRA, S.L.	33.33	33.33	EM	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	EM	ZARAGOZA (SPAIN)	CHP PLANTS
COMPANÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	EM	SORIA (SPAIN)	WIND FARM PROJECTS
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L.	50.00	50.00	EM	CADIZ (SPAIN)	SEA WIND FARMS
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	EM	ZARAGOZA (SPAIN)	WIND FARM PROJECTS
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	EM	LA CORUÑA (SPAIN)	RECYCLING PLANT
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	EM	LEÓN (SPAIN)	WIND FARM PROJECTS
ENERLASA, S.A. (IN LIQUIDATION)	45.00	45.00	EM	MADRID (SPAIN)	RENEWABLE ENERGY
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	EM	ASTURIAS (SPAIN)	WIND FARM PROJECTS
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	EM	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	EM	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS
EÓLICAS DE LA PATAGONIA, S.A.	50.00	50.00	EM	CAPITAL FEDERAL (ARGENTINA)	WIND FARM PROJECTS
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS
ERECOSALZ, S.L.	33.00	33.00	EM	ZARAGOZA (SPAIN)	CHP PLANTS
HIDROELECTRICA DE OUROL, S.L.	30.00	30.00	EM	LA CORUÑA (SPAIN)	HYDROELECTRIC POWER PLANT
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	EM	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	EM	TERUEL (SPAIN)	CHP PLANTS
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	EM	BARCELONA (SPAIN)	WIND FARM PROJECTS
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	EM	BARCELONA (SPAIN)	WIND FARM PROJECTS
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	EM	BARCELONA (SPAIN)	HYDROELECTRIC POWER PLANT
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	EM	ALICANTE (SPAIN)	RENEWABLE ENERGY
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	EM	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	EM	SEVILLE (SPAIN)	CHP PLANTS
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	EM	MADRID (SPAIN)	HYDROELECTRIC POWER PLANT
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	EM	SEVILLE (SPAIN)	WIND FARM PROJECTS
SOTAVENTO GALICIA, S.A.	36.00	36.00	EM	LA CORUÑA (SPAIN)	WIND FARM PROJECTS
TERMOTEC ENERGÍA, A.I.E. (IN LIQUIDATION)	45.00	45.00	EM	VALENCIA (SPAIN)	CHP PLANTS
TOLEDO PV, A.I.E.	33.33	33.33	EM	MADRID (SPAIN)	PHOTOVOLTAIC PLANT
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	EM	MADRID (SPAIN)	RENEWABLE ENERGY
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	EM	ALMERIA (SPAIN)	CHP PLANTS

EM: Equity method.

The Annual Consolidated Financial Statements (**Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Net Equity, Cash-Flow Statement, and Annual Report**) of **ENDESA, Sociedad Anónima** and its **SUBSIDIARY COMPANIES** for fiscal year ending December 31, 2017, as provided herein, were drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 26, 2018** and are hereinbelow signed by all of its Directors in compliance with Article 253 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*).

Borja Prado Eulate Chairman	Francesco Starace Vice Chairman
José Damián Bogas Gálvez Chief Executive Officer	Alejandro Echevarría Busquet Director
Ignacio Garralda Ruiz de Velasco Director	Maria Patrizia Grieco Director
Francisco de Lacerda Director	Alberto de Paoli Director
Helena Revoredo Delvecchio Director	Miguel Roca Junyent Director
Enrico Viale Director	

Madrid, February 26, 2018

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

**Consolidated Management Report for
the year ended 31 December 2017**

(Translation from the original issued in Spanish. In the event of
discrepancy, the Spanish-language version prevails)

Madrid, 26 February 2018

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR

THE YEAR ENDED 31 DECEMBER 2017

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(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR

THE YEAR ENDED 31 DECEMBER 2017

ENDESA drew up this Consolidated Management Report for the year ended 31 December 2017 in accordance with the "Guidelines for drawing up Management Reports of Listed Companies" issued by the Group of Experts appointed by the Spanish Securities Market Commission (CNMV).

1. Position of the entity.

1.1. Main areas of business.

ENDESA, S.A. was incorporated on 18 November 1944, and its registered office is in Madrid, calle Ribera del Loira 60.

Its corporate purpose is the electricity business in all its various industrial and commercial areas, the exploitation of all types of primary energy resources, the provision of industrial services or services relating to its main area of business, particularly gas business, and those preliminary or supplementary to the corporate purpose and management of the corporate Group, comprising investments in other companies. The Company carries out its corporate objects in Spain and abroad directly or through its investments in other companies.

ENDESA, S.A.'s business purpose is mainly categorised in section E, division 40, subclass 40.10 of the Spanish Business Classification Index (CNAE).

ENDESA, S.A. and its subsidiaries (ENDESA or the "Company") operate in the electricity and gas business, mainly in the markets of Spain and Portugal. To a lesser extent, ENDESA also supplies electricity and gas in other European markets, and other value-added products and services (VAPS) related to its main business.

The organisation is divided into generation, supply and distribution activities, each of which includes electricity and, in certain cases, gas activities.

In view of the areas of business carried on by the subsidiaries of ENDESA, S.A., transactions are not highly cyclical or seasonal.

1.2. Organisational structure.

ENDESA and its subsidiaries are part of the ENEL Group, which is headed by ENEL Iberia, S.L.U. in Spain.

At 31 December 2017, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberia, S.L.U.

At the date on which this Consolidated Management Report was drawn up, the composition of ENDESA S.A.'s Executive Management Committee, the functions of which include implementation of Group strategies, was as follows:

Position	Member
Chief Executive Officer	José Damián Bogas Gálvez
General Manager - Communication	Alberto Fernández Torres
General Manager - Energy Management	Alvaro Luis Quirarte Abelló
General Manager - Human Resources and Organisation	Andrea Lo Faso
General Manager - Renewable Energies	Enrique de las Morenas Moneo
General Manager - Infrastructure and Networks	Francesco Amadei
General Manager - Supply	Javier Uriarte Monereo
General Manager - Institutional Relations and Regulation	José Casas Marín
General Manager - Media	José Luis Puche Castillejo
General Manager - E-Solutions	Josep Trabado Farré
General Manager - Nuclear Power	Juan María Moreno Mellado
General Manager - Audit	Luca Minzolini
General Manager - ICT	Manuel Fernando Marín Guzmán
General Manager - Generation	Manuel Morán Casero
General Manager - Sustainability	María Malaxechevarría Grande
General Manager - Purchasing	Pablo Azcoitia Lorente
General Manager - Administration, Finance and Control	Paolo Bondi
General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs	Francisco de Borja Acha Besga

The annual corporate governance report, which describes the organisation of the ENDESA, S.A. Board of Directors, and the bodies to which the Board delegates its decisions, is attached to this Consolidated Management Report as Appendix II.

The general principles established in ENDESA's corporate governance strategy, ensure that the company's internal rules are set up so as to guarantee transparency and the reconciliation of the interests of all parts of the shareholder structure, along with the equal treatment among all shareholders of the same kind and in the same situation.

1.3. Main markets.

ENDESA generates, distributes and sells electricity mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France, Belgium and the Netherlands, from its platform in Spain and Portugal.

ENDESA's electricity generation and supply businesses are managed jointly, in order to optimise its position as compared to managing these activities separately.

The markets in which ENDESA carries out its activities are described as follows:

Market in Spain.

- **Generation:** ENDESA carries out its electricity generation activities in the mainland system and in Non-mainland Territories (TNP), which include the Balearic and Canary Islands and the self-governing cities of Ceuta and Melilla.
 - Conventional mainland electricity generation is a deregulated activity, although there is specific remuneration for generation with renewable energies.
 - Further, conventional generation in Non-mainland Territories (TNP) is subject to specific regulations which address the particular nature of their geographical location, and their remuneration is regulated. For generation using renewable energies in Non-mainland Territories (TNP) an incentive is established for investment when generation costs are reduced.
- **Supply of electricity, gas and value added services and products:** This activity consists of supplying energy on the market and value added services and products to customers. The supply of energy is a deregulated activity.
- **Electricity distribution:** The purpose of the electricity distribution activity is to distribute electricity to the consumption points. Electricity distribution is a regulated activity.

Section 2.6. Statistical Appendix to this Consolidated Management Report provides a breakdown of ENDESA's main figures at 31 December 2017.

Market in Portugal:

- **Generation:** Electricity generation in Portugal is carried out in a competitive environment.
- **Supply of electricity and gas:** This activity is deregulated in Portugal.

1.4. Corporate Map

ENDESA, S.A.'s activity is structured by business lines, giving the Company flexibility and the ability to respond to the needs of its customers in the territories and businesses in which it operates.

For the organisation of its business lines, ENDESA works primarily through the following companies:

Electricity generation: ENDESA Generación, S.A.U.

This company was set up on 22 September 1999 to oversee ENDESA's generation and mining assets.

ENDESA Generación, S.A.U. comprises holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), ENEL Green Power España, S.L.U. (EGPE) (100%) and a 50% stake in Nuclenor, S.A., which owns the Nuclear Plant at Santa María de Garoña (Burgos).

At 31 December 2017, ENDESA's installed capacity at ordinary regime facilities was 21,057 MW, of which, 16,483 MW corresponded to the mainland electricity system and the remaining 4,574 MW to Non-mainland Territories (TNP) (Balearic and Canary Islands and the cities of Ceuta and Melilla). At this date, the net installed capacity for renewables was 1,675 MW.

In Spain and Portugal, ENDESA had total net output in 2017 of 78,648 GWh (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

Energy distribution: ENDESA Red, S.A.U.

This company was set up on 22 September 1999 and marked the culmination of the integration of ENDESA's regional distribution companies in Spain.

Among other interests, this company holds 100% interests in ENDESA Distribución Eléctrica, S.L.U., (100%), which engages in regulated electricity distribution activities, and ENDESA Ingeniería, S.L.U. (100%).

At 31 December 2017 ENDESA distributed electricity in 27 Spanish provinces and across 10 Autonomous Communities (Andalusia, Aragón, the Balearic Islands, the Canary Islands, Castilla y León, Catalonia, Valencia, Extremadura, Galicia and Navarra), covering a total area of 195,279 km² with a total population of nearly 22 million.

ENDESA had over 12 million distribution customers, and in 2017 its network supplied a total power output of 117,961 GWh, measured at busbar cost (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

Energy supply: ENDESA Energía, S.A.U.

The company was set up on 3 February 1998 to carry out supply activities, responding to the demands of Spanish electricity market deregulation. Its main business is the supply of energy and added-value products and services (AVPS) to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market.

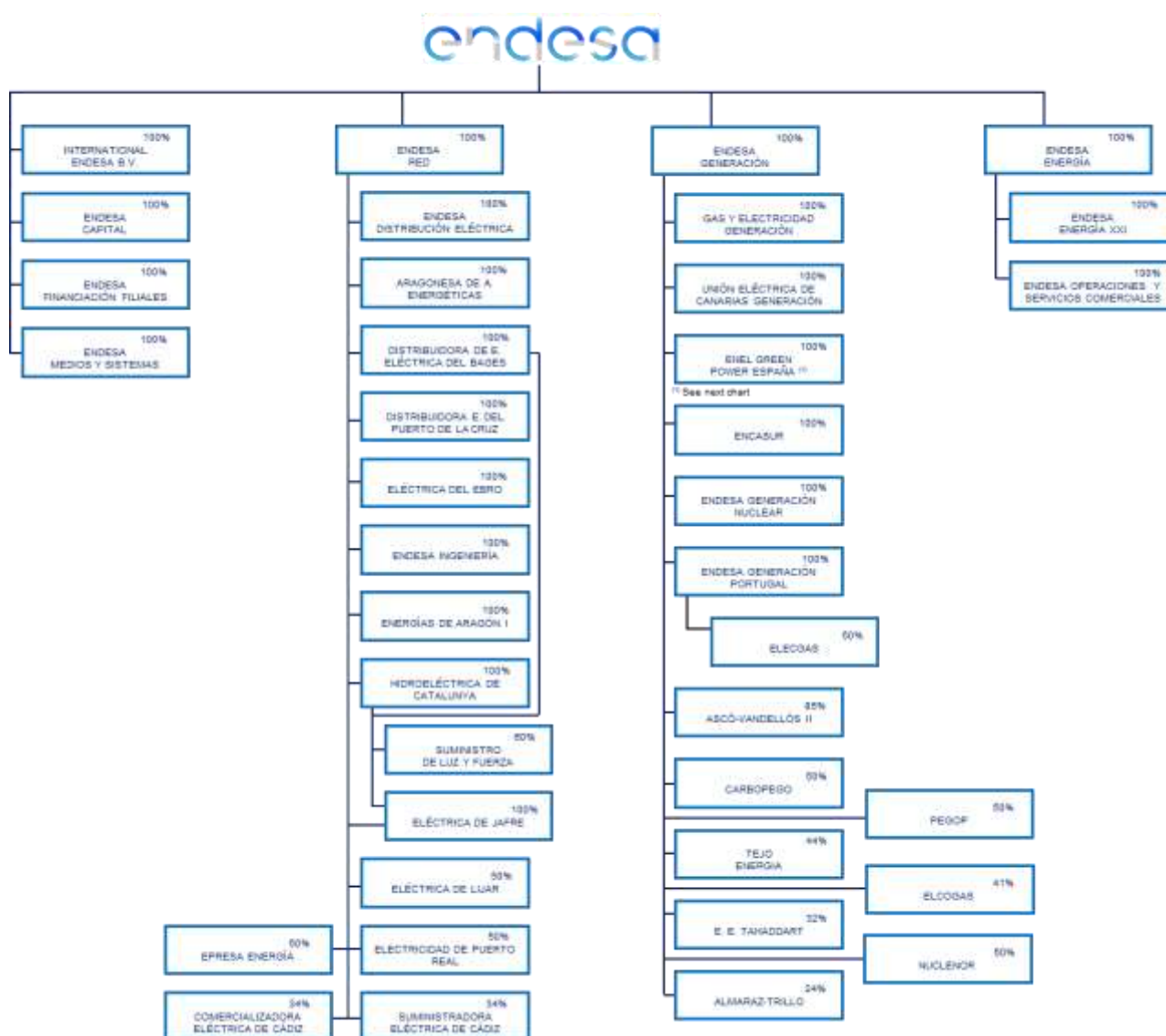
ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%), which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U. supplies the deregulated markets of Germany, Belgium, France, the Netherlands and Portugal.

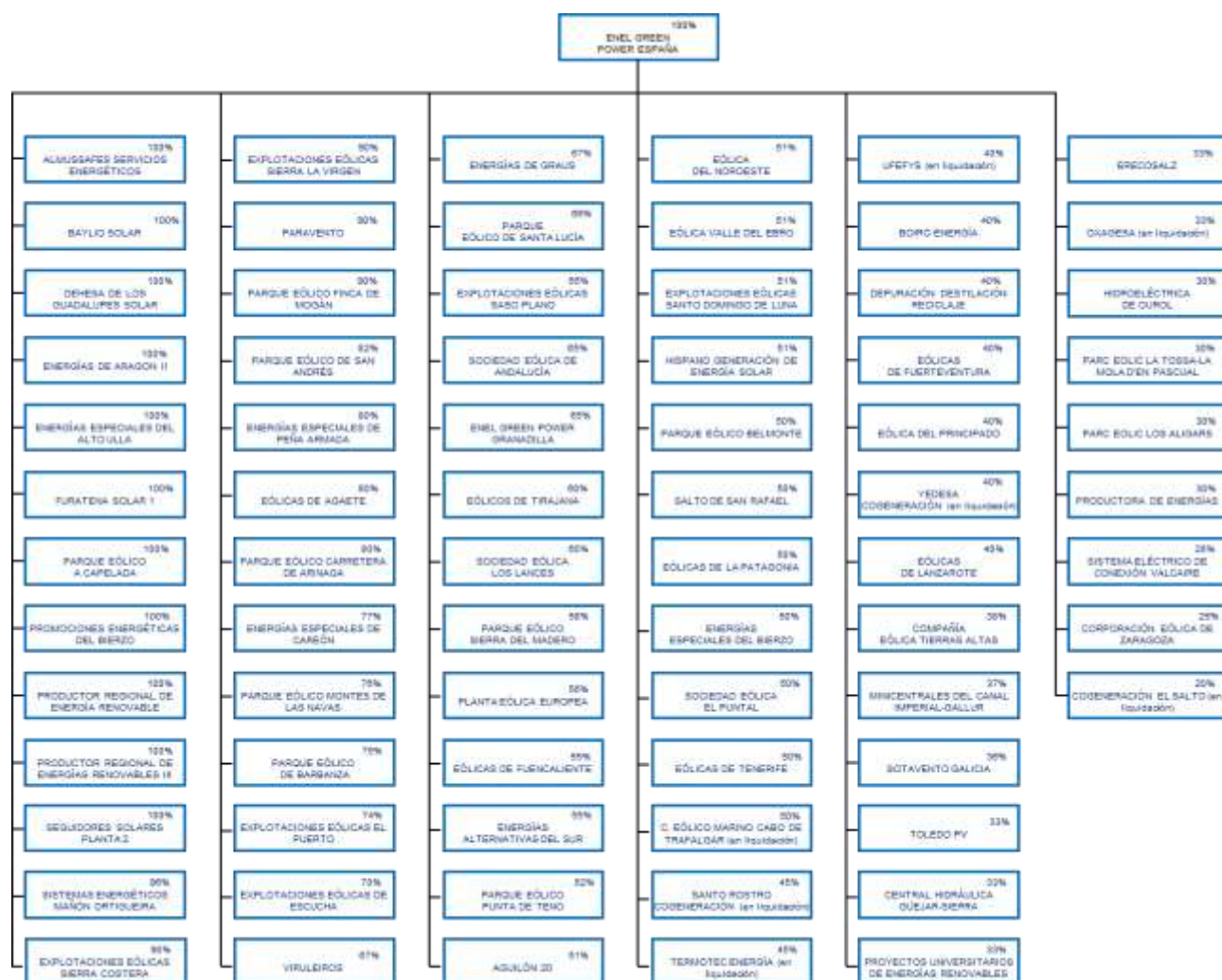
In 2017, ENDESA provided 96,513 GWh to 10.8 million supply points in the electricity market. ENDESA supplied total gas of 79,834 GWh in 2017, and at 31 December 2017, its customer portfolio in the conventional natural gas market was made up of 1.6 million supply points (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

Appendix I to the Consolidated Financial Statements for the year ended 31 December 2017 lists ENDESA's subsidiaries and joint operation entities.

Appendix II to the Consolidated Financial Statements for the year ended 31 December 2017 lists ENDESA's associates and joint ventures.

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2017:





2. Business trends and results in 2017.

2.1. Consolidated results.

ENDESA reported net income of Euros 1,463 million in 2017 (+3.7%).

ENDESA reported net income of Euros 1,463 million in 2017, up by 3.7% against the Euros 1,411 million reported in 2016.

The table below shows the breakdown of net income in ENDESA's businesses in 2017 and changes with respect to the same period the previous year (see Section 2.3. Segment Information in this Consolidated Management Report):

Millions of Euros		Net income			
		2017	2016	% Var.	% Contribution to Total
Generation and supply	(1)	263	751	(65.0)	18.0
Distribution		1,048	771	35.9	71.6
Structure and other	(2)	152	(111)	N/A	10.4
TOTAL		1,463	1,411	3.7	100.0

(1) In 2017 and 2016 includes net profit generated by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 51 million and Euros 38 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

2.2. Analysis of results.

The table below presents the detail of ENDESA main figures for 2017 and their variation compared with the previous year:

Millions of Euros					
	Main figures				
	2017	2016	Difference	%Var	
Revenue	20,057	18,979	1,078	5.7	
Contribution margin	5,488	5,652	(164)	(2.9)	
EBITDA ⁽¹⁾	3,542	3,432	110	3.2	
EBIT ⁽²⁾	2,031	1,965	66	3.4	
Net financial profit/(loss)	(123)	(182)	59	(32.4)	
Profit/(loss) before tax	1,900	1,710	190	11.1	
Net gain/(loss)	1,463	1,411	52	3.7	

(1) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

In 2017, EBITDA was Euros 3,542 million (+3.2%). The following factors must be taken into account concerning EBITDA for 2017:

- The estimate of income recognised for remuneration of distribution activity of in 2017 has been made bearing in the mind the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda, which had a positive impact of Euros 176 million on income for the period.
- Higher cost of energy purchases (+21.6%) primarily resulting from increased electricity prices on the wholesale market, whose cumulative arithmetic price was Euros 52.2/MWh (+31.6%).
- Increased fuel consumption (+38.9%) arising from greater thermal production in the period and higher fuel prices, together with the consequentially increased tax on the value of electricity production.
- The lower cost recognised for the Social Bonus for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings (see Section 3. Regulatory Framework in this Consolidated Management Report), which was collected in full at the date of preparation of this Consolidated Management Report.
- The provisions recognised within the framework of the various projects for optimising the workforce within the restructuring and reorganisation plan that is being carried out by ENDESA for the amount of Euros 19 million (Euros 226 million in 2016).
- The contribution by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million (Euros 75 million in 2016 since the takeover on 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

EBIT in 2017 climbed by 3.4% year-on-year to Euros 2,031 million as a result of:

- The increase of 3.2% in EBITDA.
- The re-evaluation realised of the useful service life of assets in operation, resulting in the modification of the depreciation policy for its hydropower, wind power and photovoltaic facilities, which in turn reduced the depreciation expense in the year by Euros 76 million.
- The contribution of the full consolidation of ENEL Green Power, S.L.U. (EGPE) for the amount of Euros 74 million, including the effect of changing the useful service life of the renewable plants mentioned in the previous paragraph (Euros 16 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

2.2.1. Revenue

In 2017, revenue totalled Euro 20,057 million, Euro 1,078 million (+5.7%) higher than in 2016.

The table below presents the detail of revenue in 2017 and their variation compared with the previous year:

Millions of Euros				
	Revenue ⁽¹⁾			
	2017	2016	Difference	%Var
Revenue from sales	19,556	18,313	1,243	6.8
Other operating income	501	666	(165)	(24.8)
TOTAL	20,057	18,979	1,078	5.7

(1) In 2017, includes revenue from ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 280 million (Euros 118 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Market situation.

In 2017, electricity demand trends were as follows:

- Total mainland electricity demand rose by 1.1% in 2017 against the previous year (+1.6% adjusted for working days and temperature).
- The electricity demand in Non-mainland Territories (TNP) closed out 2017 with a 3.5% increase in the Balearic Islands and a 2.1% increase in the Canary Islands compared with 2016 (+3.9% and +3.2% respectively, corrected for the effect of working days and temperature).

2017 saw higher prices, with the cumulative arithmetic price in the electricity wholesale market standing at Euros 52.2/MWh (+31.6%) mainly due to lower wind and hydroelectric output. The contribution of renewable energies to total mainland production was 38.7% in the year.

In this environment:

- ENDESA's mainland ordinary regime electricity output totalled 62,164 GWh in 2017, 11.0% higher than in 2016, as follows: combined cycle plants (+8,409 GWh, +118.0%), coal-fired plants (+22,303 GWh, +17.2%), nuclear power plants (+26,448 GWh, +2.0%) and hydroelectric power plants (+5,004 GWh, -30.2%).
- Nuclear and hydroelectric technologies accounted for 50.6% of ENDESA's mainland generation mix under the ordinary regime, compared with 49.4% for the rest of the sector (59.1% and 62.0% respectively in 2016).
- ENDESA's production in 2017 with renewable technologies other than hydro technology was 3,441 GWh.
- Non-mainland Territories generation (TNP) was 13,043 GWh (+3.2%).

At 31 December 2017, ENDESA held the following electricity market shares:

- 38.3% in ordinary mainland generation.
- 44.1% in electricity distribution.
- 35.4% in electricity sales to deregulated market customers.
- 3.6% in electricity generation using renewable technologies (excluding hydro).

In 2017 conventional gas demand was up by 5.1% year on year, and at 31 December 2017 ENDESA had secured a market share of 16.1% in gas sales to customers in the deregulated market.

Sales.

The table below presents the detail of sales in 2017 and their variation compared with the previous year:

Millions of Euros					
	Sales ⁽¹⁾				
	2017	2016	Difference	%Var.	
Electricity sales	14,451	13,541	910	6.7	
Sales to the deregulated market	8,457	8,213	244	3.0	
Supply to customers in deregulated markets outside Spain	1,076	961	115	12.0	
Sales at regulated prices	2,460	2,412	48	2.0	
Wholesale market sales	1,137	875	262	29.9	
Compensation for Non-mainland Territories (TNP)	1,215	1,015	200	19.7	
Other electricity sales	106	65	41	63.1	
Gas sales	2,233	2,079	154	7.4	
Regulated revenue from electricity distribution	2,231	2,054	177	8.6	
Other sales and services rendered	641	639	2	0.3	
TOTAL	19,556	18,313	1,243	6.8	

(1) In 2017, includes the sales of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 270 million (Euros 118 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Electricity sales to deregulated market customers.

At 31 December 2017 ENDESA had 5,592,893 electricity customers in the deregulated market, a 3.1% increase on numbers at 31 December 2016:

- 4,600,951 (+2.1%) in the Spanish mainland market.
- 786,572 (+5.8%) in the Non-mainland Territories (TNP) market.
- 205,370 (+17.8%) in deregulated markets outside Spain.

ENDESA's net sales to these customers totalled in 83,594 GWh in 2017, a 4.9% increase on 2016.

In economic terms, sales on the deregulated market rose totalled Euros 9,533 million (+3.9%), with the following breakdown:

- Sales in the Spanish deregulated market totalled Euros 8,457 million in 2017, which is Euros 244 million more than the figure for 2016 (+3%) due mainly to the higher number of physical units sold.
- Revenue from sales to deregulated European markets other than Spain totalled Euros 1,076 million, up by Euros 115 million (+12%) vs. 2016, due mainly to the higher volume of electricity sold in Germany.

Electricity sales at regulated prices.

In 2017:

- ENDESA sold 12,919 GWh to customers via its supplier of reference under the regulated price, which is down 6.5% on 2016.
- These sales entailed an income of Euros 2,460 million in 2017, which is 2% higher than the figure in 2016 as a result of the increased average sales price, which offset the reduction in physical units sold.

Gas sales.

At 31 December 2017, ENDESA had 1,559,695 gas customers in the deregulated market, a 1.4% increase on numbers at 31 December 2016:

- 245,832 (-6.1%) in the regulated market.
- 1,313,863 (+3.0%) in the deregulated market.

ENDESA sold 79,834 GWh to customers in the natural gas market in 2017, which represents a 2.2% increase on the 2016 figure.

Revenue from gas sales totalled Euros 2,233 million in 2017, up Euros 154 million (+7.4%) on the 2016 figure, as follows:

- Sales in the deregulated market totalled Euros 2,150 million in 2017, which is Euros 154 million more than the figure for 2016 (+7.7%) due mainly to the higher number of physical units sold.
- Revenue from gas sales at the regulated price totalled Euros 83 million in 2017, in line with the figure in 2016 as a result of the increased sales price, which offset the reduction in physical units sold.

Compensation for Non-mainland Territories (TNP).

Compensation in 2017 for the extra-costs of Non-mainland Territories generation (TNP) totalled Euros 1,215 million, up by Euros 200 million (+19.7%) against 2016, due mainly to the rise in production and sales and the increase in fuel prices brought about by changing commodity prices.

Electricity distribution.

ENDESA distributed 117,961 GWh in the Spanish market in 2017, 2.0% more than the previous year.

Regulated revenue recognised for distribution in 2017 was Euros 2,231 million, Euros 177 million more than in 2016 (+8.6%) and was estimated bearing in the mind the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda (see Section 3. Regulatory Framework in this Consolidated Management Report).

Other operating income.

In 2017, other operating income totalled Euros 501 million, down Euros 165 million year on year (-24.8%).

In 2017, there was a reduction of Euros 175 (-54.0%) in revenue from the valuation and liquidation of fuel stock derivatives compared to the previous year, which is partly offset with less expenses from the valuation and liquidation of fuel stock derivatives of Euros 86 million (-32.0%) posted under "Other variable procurements and services", as a consequence, fundamentally, of the evolution of the valuation and liquidation of gas derivatives.

2.2.2. Operating expenses.

Operating expenses totalled Euros 18,248 million in 2017, 6.5% more than in 2016.

The table below presents the detail of operating expenses in 2017 and their variation compared with the previous year:

Millions of Euros				
	Operating expenses ⁽¹⁾			
	2017	2016	Difference	%Var
Procurements and services	14,569	13,327	1,242	9.3
Fuel stock purchases	4,933	4,056	877	21.6
Fuel consumption	2,294	1,652	642	38.9
Transport costs	5,652	5,813	(161)	(2.8)
Other variable procurements and services	1,690	1,806	(116)	(6.4)
Personnel expenses	917	1,128	(211)	(18.7)
Other fixed operating expenses	1,251	1,209	42	3.5
Depreciation and amortisation, and impairment losses	1,511	1,467	44	3.0
TOTAL	18,248	17,131	1,117	6.5

(1) In 2017 this included the operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 206 million (Euros 102 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Procurements and services (variable costs).

Procurements and services (variable costs) totalled Euros 14,569 million in 2017, 9.3% more than in 2016.

The performance regarding these costs for the 2017 was:

- Energy purchases increased by Euros 877 million (+21.6%) to Euros 4,933 million, primarily because of the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 52.2/MWh, +31.6%) and gas acquired for its sale to the end customer.
- The cost of the fuel consumed in 2017 was Euros 2,294 million, up 38.9% (Euros 642 million) due to the rise in thermal output in the period and the increase in the average purchase price.
- “Other variable procurements and services” totalled Euros 1,690 million, down Euros 116 million on 2016 (-6.4%), mainly due to:
 - The lower cost recognised for the Social Bonus (or Social Tariff) for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings and the Spanish Markets and Competition Commission (CNMC) was ordered to pay the amounts paid by ENDESA, S.A. corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 3. Regulatory Framework in this Consolidated Management Report).
 - The Euros 83 million increase in the electricity production tax due to the increased value of production during the period, of which Euros 11 million correspond to ENEL Green Power España, S.L.U. (EGPE).
 - The decrease of Euros 86 million (-32.0%) in expenses relating to energy derivatives, offset in part by a Euros 175 million decrease in income in this connection (-54.0%), which is recognised under “Other operating income”, mainly due to changes in the valuation and settlement of gas derivatives.
 - A rise of Euros 63 million in nuclear tax charges implemented by the Catalonia Autonomous Community, bearing in mind that in 2016 this included regularisation of the tax in force at that time for the amount of Euros 63 million in the wake of the Constitutional Court ruling on 20 April 2016 declaring it to be unconstitutional.
 - The Euros 26 million increase in the costs of carbon dioxide (CO₂) emission rights, mostly because of greater thermal production.

Personnel and other fixed operating expenses (fixed costs).

Fixed costs totalled Euros 2,168 million in 2017, down Euros 169 million year on year, a decrease of 7.2%.

The table below presents the detail of fixed costs in 2017 and their variation compared with the previous year:

Millions of Euros				
	Fixed costs ⁽¹⁾			
	2017	2016	Difference	%Var
Personnel expenses	917	1,128	(211)	(18.7)
Other fixed operating expenses	1,251	1,209	42	3.5
TOTAL	2,168	2,337	(169)	(7.2)

(1) In 2017, this includes fixed costs from ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 75 million (Euros 29 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Personnel expenses.

Personnel expenses totalled Euros 917 million in 2017, down Euros 211 million (-18.7%) compared to 2016. The following effects should be considered when examining personnel expenses during 2017:

- Provisions of Euros 19 million and Euros 226 million were recognised for voluntary departure agreements in 2017 and 2016, respectively.

- Updates of provisions for workforce restructuring and contract suspension for Euros 27 million in 2017 and Euros 17 million in 2016.
- Net provisions for indemnities and occupational risks for Euros 3 million in 2017, positive, and Euros -14 million in 2016, negative.
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 15 million in 2017 and Euros 7 million in 2016 (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Stripping out these effects, personnel expenses would have increased by Euros 15 million (+1.7%) in 2017 due mainly to the inclusion of 319 employees of the systems and telecommunications activity (ICT) (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT) and 11.1 Personnel in this Consolidated Management Report).

Other fixed operating expenses.

Other fixed operating expenses in 2017 stood at Euros 1,251 million, up by Euros 42 million year on year (+3.5%).

Stripping out the inclusion of ENEL Green Power España, S.L.U. (EGPE) in both years, for the amount of Euros 60 million and Euros 22 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report), other fixed operating costs would have grown by Euros 4 million year on year (+0.3%) due mainly to higher taxes other than income tax (Euros 18 million).

Depreciation/amortisation and impairment losses.

Depreciation and amortisation charges and impairment losses totalled Euros 1,511 million in 2017, up Euros 44 million (+3%) compared to 2016. The following factors must be taken into account when looking at depreciation and amortisation charges for 2017:

- In 2017, ENDESA concluded its analysis on the useful service life of its assets in operation. As a result thereof and in light of the current circumstances, the depreciation policy has been amended as follows:
 - The best current useful service life estimate of wind and solar power facilities was extended to 30 years from the previously considered 25 and 20 years respectively.
 - Regarding hydroelectric power plants, depreciation of the civil engineering cost will now be over a term of 100 years and the electromechanical equipment thereof will be over 50 years (initially 65 and 35 years respectively), both with the limit on the concession term.

Effective as of 1 January 2017, both measures have had a favourable impact on the depreciation expense in 2017 of Euros 34 million and Euros 42 million, respectively.

- In 2017 a net provision for asset impairment losses of Euros 21 million was reversed, of which Euros 14 million were accounted for by reversals of provisions made in previous years in respect of certain land assets (net provision for asset impairment of Euros 17 million in 2016).
- Both years include the impact of the inclusion of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 107 million, including the effect of changing the useful service life of renewable plants mentioned in the previous paragraphs, and Euros 59 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Without considering the impacts described above, depreciation and amortisation and impairment losses in 2017 would have increased by Euros 76 million (5.5%) primarily as a result of the net impairment allowance for trade bad debts

2.2.3. Net financial profit/(loss).

Net financial income reported for 2017 was a negative Euros 123 million, a year-on-year decrease of Euros 59 million (-32.4%).

The table below presents the detail of net financial income in 2017 and its variation compared with the previous year:

Millions of Euros

	Net financial profit/(loss) ⁽²⁾			
	2017	2016	% Var.	% Contribution to Total
Financial income	51	44	15.9	(41.5)
Financial expenses	(178)	(222)	(19.8)	144.7
Net exchange differences	4	(4)	(200.0)	(3.2)
TOTAL	(123)	(182)	(32.4)	100.0

(1) 2017 includes the net financial profit/(loss) of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 2 million, positive, (Euros 1 million, positive, in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.

In 2017 net financial expenses totalled Euros 127 million, down Euros 51 million (-28.7%) year on year. The following effects should be considered when examining net financial expenses in 2017:

- Movements in long-term interest rates in both 2017 and 2016 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and for suspension agreements for the sums of Euros 4 million (positive) and Euros 55 million (negative), respectively.
- In 2017 financial expenses of Euros 15 million were recognised in relation to various rulings with respect to the Social Bonus (see Section 3. Regulatory Framework in this Consolidated Management Report).
- In 2016, Euros 12 million were recognised for financial income associated with the adjustment of interest for financing the deficit of income in regulated activities in Spain.
- In 2017, net financial expenses also include the effect of incorporating ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 2 million, positive (Euros 1 million, positive, in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Stripping out the impacts described above, net financial expenses in 2017 would have increased by Euros 12 million (+8.8%) due to the following factors:

- The lower average cost of gross financial debt, which fell from 2.5% in 2016 to 2.1% in 2017 (see section 4.1. Financial Management in this Consolidated Management Report).
- The higher average gross financial debt in both periods, rising from Euros 5,191 million in 2016 to Euros 6,082 million in 2017.

2.2.4. Net income of companies accounted for using the equity method.

In 2017, companies accounted for using the equity method contributed a net loss of Euros 15 million, compared to the net loss of Euros 59 million in 2016.

In 2017 and 2016 this heading includes a negative impact of Euros 48 million and Euros 38 million, respectively, relating to the 50% stake in Nuclenor, S.A. following the recognition of a provision to cover the estimated additional cost for the company of the pre-dismantling of the Santa María de Garoña nuclear plant (see Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

Further, in 2016, this heading mainly included the net profit/(loss) contributed by the 40% holding in ENEL Green Power España, S.L.U. (EGPE) prior to the takeover date on 27 July 2016, in the amount of Euros 69 million, broken down as follows:.

- Euros 7 million in respect of net income generated previously by the 40% stake in the company up to the takeover date.
- A negative Euros 72 million booked for impairment prior to the takeover, in due consideration of the fact that the recovery value of the previous 40% stake in the company was lower than the carrying amount.
- A negative Euros 4 million in respect of the net income obtained from the appraisal of the previous 40% stake at fair value on the purchase date.

Following the takeover of ENEL Green Power España, S.L.U. (EGPE), after 27 July 2016 the equity method was no longer used to account for ENEL Green Power España, S.L.U. (EGPE), and the full consolidation method was used instead (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

2.2.5. Income from asset sales.

The main transactions carried out in 2017 were as follows:

- On 30 June 2017, ENDESA sold its holdings in Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L. The total price agreed for the transaction was Euros 16 million, generating a gross gain of Euros 4 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- On 28 December 2017, ENDESA sold its 60% holding in the share capital of Nueva Marina Real Estate, S.L. The sale was carried out at the price of Euros 20 million, generating a gross capital gain of Euros 9 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- Gross gains on the sale of land and other assets amounting to Euros 7 million.
- Fee and commission expense for factoring transactions of Euros 27 million (Euros 25 million in 2016).

2.2.6. Income tax.

Expenditure on income tax in 2017 stood at Euros 427 million, an increase of Euros 129 million year on year (+43.3%).

The effective rate in 2017 was 22.5% (17.4% in 2016).

In 2016, following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

In like-for-like terms, stripping out the impacts referred to in the preceding paragraph, income tax expense would have increased by Euros 48 million (+12.7%) year on year.

2.2.7. Net profit/(loss).

Net profit attributable to the parent company in 2017 stood at Euros 1,463 million, an increase of Euros 52 million year on year (+3.7%).

2.3. Segment Information.

Segment information is included in Note 34 to the Consolidated Financial Statements for the year ended 31 December 2017.

The table below presents the detail of ENDESA main figures for 2017 and their variation compared with the previous year:

Millions of Euros

	2017				2016			
	Generation and supply	Distribution	Structure and other (3)	TOTAL	Generation and supply	Distribution	Structure and other (3)	TOTAL
Revenue	17,509	2,750	(202)	20,057	16,628	2,538	(187)	18,979
Contribution margin	2,784	2,590	114	5,488	3,344	2,399	(91)	5,652
EBITDA (1)	1,350	2,050	142	3,542	1,850	1,788	(206)	3,432
EBIT (2)	488	1,453	90	2,031	1,065	1,131	(231)	1,965
Net financial profit/(loss)	(132)	(96)	105	(123)	(154)	(123)	95	(182)
Profit/(loss) before tax	314	1,379	207	1,900	822	1,020	(132)	1,710
Net profit/(loss)	263	1,048	152	1,463	751	771	(111)	1,411

(1) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(2) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and impairment losses.

(3) Structure, services and Adjustments.

2.3.1. Contribution margin.

The table below presents the distribution of the sales and other operating income among ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros

	Sales				Other operating income			
	2017	2016	% Var.	% Contribution to Total	2017	2016	% Var.	% Contribution to Total
Generation and supply	17,223	16,190	6.4	88.1	286	438	(34.7)	57.1
Non-mainland Territories generation (TNP)	1,943	1,638	18.6	9.9	9	9	-	1.8
Other generation and supply (1)	16,204	15,325	5.7	82.9	277	429	(35.4)	55.3
Adjustments	(924)	(773)	19.5	(4.7)	-	-	-	-
Distribution	2,492	2,268	9.9	12.7	258	270	(4.4)	51.5
Structure and other (2)	(159)	(145)	9.7	(0.8)	(43)	(42)	2.4	(8.6)
TOTAL	19,556	18,313	6.8	100.0	501	666	(24.8)	100.0

(1) In 2017, this included sales and other operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 270 million and Euros 10 million respectively (Euros 118 million in sales in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

The following table contains the breakdown of procurements and services between ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros

	Procurements and services (3)			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	14,725	13,284	10.8	101.1
Non-mainland Territories generation (TNP)	1,258	1,009	24.7	8.6
Other generation and supply (1)	14,385	13,043	10.3	98.8
Adjustments	(918)	(768)	19.5	(6.3)
Distribution	160	139	15.1	1.1
Structure and other (2)	(316)	(96)	229.2	(2.2)
TOTAL	14,569	13,327	9.3	100.0

(1) In 2017, this includes the procurements and services of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 24 million (Euros 14 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Procurements and services = Energy purchases + Fuel consumption + Transport costs + Other variable procurements and services.

The breakdown of the contribution margin in ENDESA's businesses in 2017 and variations compared to the previous year are as follows:

Millions of Euros

	Contribution margin ⁽³⁾			% Contribution to Total
	2017	2016	% Var.	
Generation and supply	2,784	3,344	(16.7)	50.7
Non-mainland Territories generation (TNP)	694	638	8.8	12.6
Other generation and supply ⁽¹⁾	2,096	2,711	(22.7)	38.2
Adjustments	(6)	(5)	-	(0.1)
Distribution	2,590	2,399	8.0	47.2
Structure and other ⁽²⁾	114	(91)	N/A	2.1
TOTAL	5,488	5,652	(2.9)	100.0

(1) In 2017 this included the contribution margin by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 256 million (Euros 104 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Contribution margin = Income - Procurements and services.

Generation and Supply

The contribution margin in the Generation and Supply segment in 2017 totalled Euros 2,784 million in 2017, down Euros 560 million year on year, a decrease of 16.7%, due mainly to the following factors:

- Increased electricity prices on the wholesale market (Euros 52.2/MWh; +31.6%) and the subsequent rise in power purchase costs (+21.7%).
- Greater thermal production in the period and higher fuel prices, which caused a rise in fuel consumption (+38.9%), higher tax on the value of electricity generation (Euros 83 million, of which Euros 11 million correspond to ENEL Green Power Spain, S.L.U. (EGPE)) and higher costs of carbon dioxide (CO₂) emission rights (Euros 26 million).
- A rise of Euros 63 million in nuclear tax charges implemented by the Catalonia Autonomous Community, due to the regularisation carried out in 2016 of the tax in force at that time after it was declared to unconstitutional.
- Changes in the valuation and settlement of derivatives, mainly gas derivatives, which caused a decrease in energy derivatives costs (Euros 86 million), partly offset by the reduction in income for this concept (Euros 175 million).
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 256 million (Euros 104 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Distribution.

The contribution margin in the Distribution segment in 2017 totalled Euros 2,590 million in 2017, up Euros 191 million year on year (+8%) due mainly to the estimate of income recognised for the remuneration of distribution 2017.

This estimate was made considering the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda, which had a positive impact of Euros 176 million on income for the period (see Section 3. Regulatory Framework in this Consolidated Management Report).

Structure and Other.

The contribution margin for Structure and Other totalled Euros 114 million in 2017, up Euros 205 million year on year.

This variation is mainly the result of the lower cost recognised for the Social Bonus for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings and ordering the Spanish Markets and Competition

Commission (CNMC) to pay in full the amounts paid by ENDESA, S.A. corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 3. Regulatory Framework in this Consolidated Management Report).

2.3.2. EBITDA.

The table below presents the EBITDA of ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros				
	EBITDA ⁽³⁾			
	2017	2016	% Var.	% Contribution to total
Generation and supply	1,350	1,850	(27.0)	38.1
Non-mainland Territories generation (TNP)	452	389	16.2	12.8
Other generation and supply ⁽¹⁾	898	1,461	(38.5)	25.3
Adjustments	-	-	-	-
Distribution	2,050	1,788	14.7	57.9
Structure and other ⁽²⁾	142	(206)	N/A	4.0
TOTAL	3,542	3,432	3.2	100.0

(1) In 2017, this includes the EBITDA generated by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million (Euros 75 million in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, Services and Adjustments.

(3) Gross operating profit (EBITDA) = Income - Supplies and services + Work carried out by the Group for its assets - Personnel expenses - Other operating expenses.

The following table contains the breakdown of personnel expenses and other fixed operating expenses for ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros								
	Personnel expenses				Other fixed operating expenses			
	2017 ⁽³⁾	2016	% Var.	% Contribution to Total	2017 ⁽³⁾	2016	% Var.	% Contribution to Total
Generation and supply	470	544	(13.6)	51.3	965	958	0.7	77.1
Non-mainland Territories generation (TNP)	84	91	(7.7)	9.2	159	160	(0.6)	12.7
Other generation and supply ⁽¹⁾	386	453	(14.8)	42.1	812	804	1.0	64.9
Adjustments	-	-	-	-	(6)	(6)	-	(0.5)
Distribution	255	321	(20.6)	27.8	394	396	(0.5)	31.5
Structure and other ⁽²⁾	192	263	(27.0)	20.9	(108)	(145)	(25.5)	(8.6)
TOTAL	917	1.128	(18.7)	100.0	1.251	1.209	3.5	100.0

(1) In 2017, this included personnel expenses and other fixed operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 15 million and Euros 60 million respectively (Euros 7 million and Euros 22 million respectively in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Adjusted the amount of Work carried out by the Group for its assets under the headings Personnel Expenses and Other Fixed Operating Expenses for the amount of Euros 20 million and Euros 68 million, respectively, as a result of the acquisition of the systems and telecommunications activity (ICT) (see section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

Generation and Supply segment.

In 2017, EBITDA for this segment was Euros 1,350 million (+27.0%). The following factors must be taken into account when looking at EBITDA for 2017:

- The 16.7% in the contribution margin.
- Provisions of Euros 5 million and Euros 74 million recognised for voluntary departure agreements in 2017 and 2016, respectively.
- Updates of provisions for workforce restructuring and contract suspension agreements in both years for Euros 10 million and Euros 3 million respectively.
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million and Euros 75 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Distribution segment.

In 2017, EBITDA for this segment was Euros 2,050 million (+14.7%), including:

- The positive performance of the contribution margin (+8%) due to the estimate of income recognised for the remuneration of distribution for 2017 (see Section 3. Regulatory Framework in this Consolidated Management Report).
- The reduction in personnel expenses in 2017 (-20.6%) due to the reduction of the average workforce in the business unit (-8.8%), the Euros 57 million decrease in the provisions for workforce optimisation projects and their updates (Euros 2 million and Euros 12 million, respectively).
- The containment of other fixed operating expenses in 2017 (-0.5%) due to the projects underway to improve quality and efficiency.

Structure and Other.

In 2017, EBITDA for the Structure and Other was Euros 142 million, including:

- The positive performance of the contribution margin, which increased by Euros 205 million due to the lower expense recognised for the Social Bonus (see Section 3. Regulatory Framework in this Consolidated Management Report).
- The provisions recognised in 2017 and 2016 for the different workforce optimisation plans (Euros 14 million and Euros 95 million, respectively), and the updates made for both years (Euros 15 million and Euros 2 million, respectively).

2.3.3. EBIT.

The table below presents the EBIT of ENDESA's business units in 2017 and variations compared with the previous year:

Millions of Euros				
	EBIT ⁽³⁾			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	488	1,065	(54.2)	24.0
Non-mainland Territories generation (TNP)	285	246	15.9	14.0
Other generation and supply ⁽¹⁾	203	819	(75.2)	10.0
Adjustments	-	-	-	-
Distribution	1,453	1,131	28.5	71.5
Structure and other ⁽²⁾	90	(231)	(139.0)	4.5
TOTAL	2,031	1,965	3.4	100.0

(1) In 2017, this includes the EBIT generated by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 74 million (Euros 16 million in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, Services and Adjustments.

(3) EBIT = EBITDA - Depreciation and amortisation and impairment losses.

Generation and Supply segment.

In 2017, EBIT for the Generation and Supply segment was Euros 488 million (-54.2%), including among others:

- The decrease of 27% in EBITDA.
- The Euros 76 million reduction in the depreciation and amortisation expense due to the modification of estimated useful lives of hydro, wind power and solar power facilities.
- The contribution of the full consolidation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 74 million, including the effect of changing the useful service life of the renewable plants

mentioned in the previous paragraph (Euros 16 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

- The Euros 59 million increase in the net impairment allowance for trade bad debts.

Distribution segment.

EBIT for the Distribution segment in 2017 grew by Euros 322 million year-on-year (+28.5%), mainly as a result of the 14.7% rise in EBITDA.

This performance includes a variation of Euros 43 million relating to net impairment allowances for land arising from appraisals performed by third parties.

Structure and Other.

EBIT for the Structure and Other totalled Euros 321 million in 2017, up by Euros 321 million against the previous year. This performance includes:

- The Euros 348 million rise in EBITDA.
- The Euros 18 million increase (+83.3%) in the depreciation and amortisation charge due to the inclusion of the systems and telecommunications activity (ICT) (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

The breakdown of depreciation and impairment losses in ENDESA's businesses in 2017 and the year-on-year change are as follows:

Millions of Euros				
	Depreciation and amortisation, and impairment losses			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	862	785	9.8	57.1
Non-mainland Territories generation (TNP)	167	143	16.8	11.1
Other generation and supply ⁽¹⁾	695	642	8.3	46.0
Adjustments	-	-	-	-
Distribution	597	657	(9.1)	39.5
Structure and other ⁽²⁾	52	25	108.0	3.4
TOTAL	1,511	1,467	3.0	100.0

(1) In 2017 this includes the depreciation and amortisation and impairment losses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 107 million (Euros 59 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

2.4. Consolidation scope.

Eléctrica de Jafre, S.A.

On 31 May 2017 ENDESA Red, S.A.U. acquired 52.54% of the share capital of Eléctrica de Jafre, S.A., whose activity entails electricity transmission and distribution, and the lease and reading of water and electricity meters. ENDESA Red, S.A.U. previously held 47.46% in this company. As a result of this transaction ENDESA went from having significant influence to full control of Eléctrica de Jafre, S.A. thereby strengthening its distribution activity (see Note 5.2 of the Notes to the Consolidated Financial Statements for the year ended 31 December 2017).

The net cash outflow arising from the acquisition of Eléctrica de Jafre, S.A. amounted to Euros 1 million, corresponding mainly to the price agreed in the transaction.

The purchase price was finally assigned, on the basis of the fair value of the assets acquired and the liabilities undertaken (Net Assets Acquired) from Eléctrica de Jafre, S.A., under the following headings in the Consolidated Financial Statements:

Millions of Euros	
	Fair Value
Non-current assets	4
Property, plant & equipment	4
TOTAL ASSETS	4
Non-current liabilities	1
Deferred income	1
Current liabilities	1
Trade and other payables	1
TOTAL LIABILITIES	2
Fair value of net assets acquired	2

When determining the fair value of the assets acquired and the liabilities assumed, the expected discounted cash flows were taken into consideration in line with the remuneration system in force at the acquisition date.

In 2017, ordinary income and profit after taxes generated by the company from the acquisition date of 31 May 2017 were insignificant. Additionally, had the acquisition taken place on 1 January 2017, ordinary income and profit after taxes generated from this transaction during 2017 would have amounted to less than Euros 1 million.

The net gain at the date control was obtained from the measurement at fair value of the previously held non-controlling interest of 47.46% in Eléctrica de Jafre, S.A. was less than Euros 1 million.

Corporate transactions related to capacity awarded in renewable power auctions.

As a result of the capacity auctions, which took place on 17 May 2017 and 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE) was awarded 540 MW of wind capacity and 339 MW of photovoltaic capacity, respectively (see Notes 3 and 4.5), formalised through the following corporate transactions (see Section 3. Regulatory Framework and 4.5.: Investments in this Consolidated Management Report):

- Formation, on 2 November 2017, of a new company called Explotaciones Eólicas Santo Domingo de Luna, S.A. (wind technology) with a percentage stake of 51%.
- Acquisition of the following companies:

	Acquisition date	Technology	Percentage stake at 31 December 2017
			Control
Seguidores Solares Planta 2, S.L.U.	23 November 2017	Photovoltaic	100.00
Baylio Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Dehesa de los Guadalupe Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Furatena Solar 1, S.L.U.	15 December 2017	Photovoltaic	100.00

The price agreed for all these transactions was Euros 5 million, with a total net cash outflow of Euros 1 million (see Note 5.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

ENDESA has recognised the acquisition of these companies as a business combination, and using the acquisition method, has definitely recognised the acquired assets and assumed liabilities (net acquired assets) of each one at fair value on its acquisition date under the following income statement headings:

Millions of Euros	
	Fair value
Non-current assets	6
Property, plant & equipment	6
TOTAL ASSETS	6
Non-current liabilities	1
Deferred tax liabilities	1
TOTAL LIABILITIES	1
Fair value of net assets acquired	5

Both the newly formed company and the acquired companies are currently applying for permits and licences to carry out their projects. Therefore, construction work has not yet started on the renewable energy facilities, and no revenue has been generated since the acquisition/formation date.

Other investments.

On 30 June 2017, ENDESA sold its holdings in Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L. The transaction generated a gross gain of Euros 4 million on the 2017 Consolidated Income Statement (see Section 2.2.5. Gains/(losses) on disposal of assets in this Consolidated Management Report and Note 2.5 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 18 July 2017, ENEL Green Power España, S.L.U. (EGPE) completed the purchase of non-controlling interests in Productor Regional de Energía Renovable, S.A. (15%) and Productor Regional de Energías Renovables III, S.A. (17.11%) for the amount of Euros 2 million and Euros 3 million, respectively. The transaction, which had no impact on the Consolidated Income Statement, had an effect of Euros 3 million on Equity (see Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 4 August 2017, the dissolution of the Minas de Estercuel, S.A. (in liquidation) and Minas Gargallo, S.L. (in liquidation) in which ENDESA held stakes of 99.65% and 99.91%, respectively was registered with the Companies Register (see Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 28 December 2017, ENDESA sold its 60% holding in the share capital of Nueva Marina Real Estate, S.L. The transaction generated a gross gain of Euros 9 million on the 2017 Consolidated Income Statement (see Section 2.2.5. Gains/(losses) on disposal of assets in this Consolidated Management Report and Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

ENEL Green Power España, S.L.U. (EGPE).

On 27 July 2016, ENDESA Generación S.A.U., a company fully owned by ENDESA S.A., acquired from ENEL Green Power International B.V. 60% of the share capital of ENEL Green Power España, S.L.U. (EGPE), thus increasing its previous stake in share capital from 40%.

On the date of execution of the purchase, ENDESA assumed control over ENEL Green Power España, S.L.U. (EGPE) compared to the significant influence that it had previously held.

At 31 December 2017, one year after the purchase of ENEL Green Power España, S.L.U. (EGPE), the business combination has been recognised following completion in 2017 of the measurement of its assets, liabilities and contingent liabilities at fair value once the final conclusions concerning the appraisal of certain compensatory assets and contingent liabilities had been obtained (see Notes 5.4 and 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

Using the acquisition method, the acquired assets and assumed liabilities (net acquired assets) of ENEL Green Power España, S.L.U. (EGPE) have been recognised at fair value at the acquisition date under the following headings of the Consolidated Financial Statements:

Millions of Euros

	Provisional fair value	Valuation adjustments in the period	Definitive fair value
Non-current assets	2,328	(2)	2,326
Property, plant & equipment	1,248	-	1,248
Intangible assets	757	-	757
Investments accounted for using the equity method	34	-	34
Non-current financial assets	252	(2)	250
Deferred tax assets	37	-	37
Current assets	143	-	143
Inventories	29	-	29
Trade and other receivables	70	-	70
Current financial assets	13	-	13
Cash and cash equivalents	31	-	31
TOTAL ASSETS	2,471	(2)	2,469
NON-CONTROLLING INTERESTS	148	-	148
Non-current liabilities	445	(4)	441
Deferred income	9	-	9
Non-current provisions	55	(4)	51
Provisions for pensions and similar obligations	2	-	2
Other non-current provisions	53	(4)	49
Non-current interest-bearing loans and borrowings	141	-	141
Other non-current Liabilities	9	-	9
Deferred tax liabilities	231	-	231
Current liabilities	164	-	164
Current interest-bearing loans and borrowing	86	-	86
Trade and other payables	78	-	78
TOTAL LIABILITIES	609	(4)	605
Fair value of net assets acquired ⁽¹⁾	1,714	2	1,716

(1) The main revalued assets belong to the category of Intangible Assets (see Note 8 to the Consolidated Financial Statements for the year ended 31 December 2017).

The difference between the cost of the business combination and the fair value of the assets and liabilities booked as indicated above, in due consideration of the fair value of the previous 40% stake in ENEL Green Power España, S.L.U. (EGPE), generated goodwill in the amount of Euros 296 million.

As a result of the takeover, the Consolidated Income Statement for 2017 includes the income and expenses of ENEL Green Power España, S.L.U. (EGPE).

The contribution of ENEL Green Power España, S.L.U. (EGPE) to net profit in 2017 was Euros 51 million (Euros 38 million in 2016), broken down as follows:

Millions of Euros	2017	2016
Revenue	280	118
Contribution margin	256	104
EBITDA ⁽¹⁾	181	75
EBIT ⁽²⁾	74	16
Net financial profit/(loss)	2	1
Net Profit/(loss) of companies accounted for using the equity method and other investments	5	(65) ⁽³⁾
Income tax expense	(20)	87 ⁽⁴⁾
Non-Controlling Interests	(10)	(1)
TOTAL	51	38

(1) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(2) EBIT = EBITDA - Depreciation and amortisation and impairment losses.

(3) Includes mainly net profit/loss relating to the 40% stake previously-held by ENDESA, S.A. through ENDESA Generación, S.A.U. until the date that control was obtained (Euros 7 million), impairment recognised prior to the date that control was obtained, bearing in mind that the recoverable value of the 40% stake in ENEL Green Power España, S.L.U. (EGPE) was lower than its carrying amount (Euros 72 million), and net profit at the takeover date, as a result of the fair value measurement of the non-controlling 40% stake in ENEL Green Power España, S.L.U. (EGPE) (Euros -4 million).

(4) Following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition.

In 2017 and 2016 the main figures for ENEL Green Power España, S.L.U. (EGPE) are as follows:

	Main figures of ENEL Green Power España, S.L.U. (EGPE)	
	2017	2016
Electricity generation (GWh)	3,441	1,212 ⁽¹⁾
Gross installed capacity (MW) ⁽²⁾	1,675	1,675
Net Installed capacity (MW) ⁽²⁾	1,675	1,675
Electricity sales (GWh)	3,441	1,212 ⁽¹⁾

(1) From the takeover date of 27 July 2016.

(2) At 31 December.

2.5. Acquisition of the systems and telecommunications activity (ICT).

On 29 December 2016, ENDESA, S.A., acting through its fully owned subsidiary ENDESA Medios y Sistemas, S.L.U., and ENEL Iberia, S.L.U. entered into an Assignment Contract for the IT and Telecommunications Activity so that the latter may acquire the ICT activities within the ENDESA sphere (see Note 5.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

The operation entailed the transfer of materials, human resources and contracts with third parties affected in the implementation of these activities.

The effective date of the transaction was 1 January 2017 and entailed a reorganisation of systems and telecommunications support activities at ENDESA to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying internal procedures and administrative management.

The price stipulated for purchasing this activity was Euros 246 million, which was paid on the date when the contract was formalised. The transaction was recognised through the acquisition method, with definitive allocation to the following items in the Consolidated Financial Statements:

Millions of Euros	
	Fair value
Non-current assets	95
Property, plant & equipment	64
Intangible assets	30
Non-current financial assets	1
TOTAL ASSETS	95
Non-Current liabilities	8
Non-current provisions	8
Current liabilities	2
Trade and other payables	2
TOTAL LIABILITIES	10
Fair value of net assets acquired	85

The difference between the cost of the business combination and the fair value of the recognised assets and liabilities indicated above gave rise a goodwill of Euros 161 million from the expected synergies to be obtained in the operation based on aspects such as the prospects of greater autonomy for ENDESA in the future management of ICT activities, simplification and improvement of operations and management and a reduction in expected costs.

The fair value of the acquired assets and assumed liabilities was determined by discounting the free cash flows on the basis of the business plan and the trend of the systems and telecommunications (ICT) sector.

In 2017, the systems and telecommunications activity (ICT) contributed Euros 30 million to EBITDA and Euros 12 million to EBIT.

2.6. Statistical Appendix

Key figures.

GWh

Electricity generation	(1)	2017	2016	% Var.
Mainland		62,164	55,985	11.0
Nuclear		26,448	25,921	2.0
Coal		22,303	19,033	17.2
Hydroelectric		5,004	7,173	(30.2)
Combined cycle (CCGT)		8,409	3,858	118.0
Non-mainland Territories generation (TNP)		13,043	12,634	3.2
Renewables and cogeneration		3,441	1,212 (2)	183.9
TOTAL		78,648	69,831	12.6

(1) At busbar cost.

(2) Corresponding to energy generated by ENEL Green Power España, S.L.U. (EGPE) since the date of the takeover, 27 July 2016 (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

MW

Gross installed capacity	31 December 2017	31 December 2016	% Var.
Hydroelectric	4,752	4,765	(0.3)
Conventional thermal	8,130	8,130	-
Nuclear	3,443	3,443	-
Combined cycle (CCGT)	5,678	5,678	-
Renewables and cogeneration	1,675	1,675	-
TOTAL	23,678	23,691	(0.1)

MW

Net installed capacity	31 December 2017	31 December 2016	% Var.
Hydroelectric	4,709	4,721	(0.3)
Conventional thermal	7,585	7,585	-
Nuclear	3,318	3,318	-
Combined cycle (CCGT)	5,445	5,445	-
Renewables and cogeneration	1,675	1,675	-
TOTAL	22,732	22,744	(0.1)

GWh

Other gross electricity sales	(1)	2017	2016	% Var.
Reference supply		15,263	16,297	(6.3)
Deregulated market		91,487	87,343	4.7
TOTAL		106,750	103,640	3.0

(1) At busbar cost.

GWh

Other net electricity sales	(1)	2017	2016	% Var.
Reference supply		12,919	13,815	(6.5)
Deregulated market		83,594	79,675	4.9
TOTAL		96,513	93,490	3.2

(1) Sales to end customers.

Thousands

Number of customers (electricity)	(1)	31 December 2017	31 December 2016	% Var.
Regulated market		5,255	5,593	(6.0)
Mainland Spain		4,416	4,692	(5.9)
Non-mainland Territories generation (TNP)		839	901	(6.9)
Deregulated market		5,593	5,423	3.1
Mainland Spain		4,601	4,505	2.1
Non-mainland Territories generation (TNP)		787	744	5.8
Outside Spain		205	174	17.8
TOTAL		10,848	11,016	(1.5)

(1) Supply points.

Percentage (%)

Electricity demand trend	(1)	2017	2016
Mainland	(2)	1.1	0.6
Non-mainland Territories generation (TNP)	(3)	2.6	1.0

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

(2) Adjusted for working days and temperature: +1.6% in 2017 and -0.1% in 2016.

(3) Adjusted for working days and temperature: +3.4% in 2017 and +0.8% in 2016.

GWh

Energy distributed	(1)	2017	2016	% Var.
Spain and Portugal		117,961	115,602	2.0

(1) At busbar cost.

km

Distribution and transmission networks		31 December 2017	31 December 2016	% Var.
Spain and Portugal		317,782	316,562	0.4

Percentage (%)

Energy losses	(1)	2017	2016	
Spain and Portugal		10.6		11.0

(1) Source: In-house.

Minutes

Installed Capacity Equivalent Interruption Time (ICEIT)		2017	2016	
Spain and Portugal (average)	(1) (2)	62		45

(1) Corresponds to Spain.

(2) According to the calculation procedure set down by Royal Decree 1995/2000, of 1 December.

Percentage (%)

Market share (Electricity)	(1)	31 December 2017	31 December 2016	
Ordinary mainland generation		38.3		35.1
Renewable generation	(2)	3.6		3.5
Distribution		44.1		43.7
Deregulated market		35.4		35.3

(1) Source: Endesa data.

(2) Excluding hydroelectric.

GWh

Gas sales		2017	2016	% Var.
Deregulated market		46,578	48,270	(3.5)
Regulated market		1,372	1,464	(6.3)
International market		24,523	19,474	25.9
Wholesale business		7,361	8,921	(17.5)
TOTAL	(1)	79,834	78,129	2.2

(1) Excluding own generation consumption.

Thousands

Customers (Gas)	(1)	2017	2016	% Var.
Regulated market		246	262	(6.1)
Mainland Spain		219	233	(6.0)
Non-mainland Territories generation (TNP)		27	29	(6.9)
Deregulated market		1,314	1,276	3.0
Mainland Spain		1,205	1,167	3.3
Non-mainland Territories generation (TNP)		63	86	(26.7)
Outside Spain		46	23	100.0
TOTAL		1,560	1,538	1.4

(1) Supply points.

Percentage (%)

Gas demand trend	(1)	2017	2016	
Domestic market		9.1		3.3
Domestic conventional		5.1		2.1
Electricity sector		26.7		(2.6)

(1) Source: Enagás, S.A.

Percentage (%)

Market share (Gas)	(1)	2017	2016	
Deregulated market		16.1		16.9

(1) Source: Endesa data.

Financial Data.

Millions of Euros

		Consolidated Income Statement ⁽⁵⁾		
		2017	2016	% Var.
Sales		19,556	18,313	6.8
Contribution margin	(1)	5,488	5,652	(2.9)
EBITDA	(2)	3,542	3,432	3.2
EBIT	(3)	2,031	1,965	3.4
Net Income	(4)	1,463	1,411	3.7

(1) Contribution margin = Income - Procurements and services.

(2) EBITDA = Income - Procurements and Services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(3) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and amortisation and impairment losses.

(4) Net profit: Profit/(loss) of the Parent.

(5) See the Consolidated Income Statements for 2017 and 2016.

Euros

Vauation Key figures		2017	2016	% Var.
Earnings per share	(1)	1.38	1.33	3.7
Cash Flow per share	(2)	2.30	2.83	(18.6)
Book value of equity per share	(3)	8.59 ⁽⁴⁾	8.46 ⁽⁵⁾	1.6

(1) Net profit per share = profit for the year by parent / N° shares.

(2) Cash flow per share = Net cash flows from operating activities / N° of shares.

(3) Carrying amount per share = Equity of parent / N° of shares.

(4) At 31 December 2017

(5) At 31 December 2016

Millions of Euros

		Consolidated statement of financial position ⁽²⁾		
		31 December 2017	31 December 2016	% Var.
Total assets		31,037	30,960	0.2
Equity		9,233	9,088	1.6
Net financial debt	(1)	4,985	4,938	1.0

(1) Net financial debt = Non-current financial liabilities + Current financial liabilities – Cash and cash equivalents – Financial derivatives recognised under assets.

(2) See Statements of Financial Position at 31 December 2017 and 2016.

Profitability indicators (%)		31 December 2017	31 December 2016
Return on equity	(1)	16.21	15.69
Return on assets	(2)	4.72	4.69
Economic profitability	(3)	9.31	9.20
Return on capital employed (ROCE)	(4)	5.08	5.39

(1) Return on equity = Profit for the year by parent / Average equity of the Parent

(2) Return on assets = Profit for the year by parent / Average total assets.

(3) Economic profitability = Operating profit (EBIT) / Average property, plant and equipment.

(4) Return on capital employed = Operating profit after tax / (Average non-current assets + average current assets).

Financial indicators		31 December 2017	31 December 2016
Liquidity ratio	(1)	0.73	0.72
Solvency ratio	(2)	0.92	0.92
Debt ratio	(3)	35.06	35.21
Debt hedge ratio	(4)	1.41	1.44

(1) Liquidity = Current assets / Current liabilities.

(2) Solvency = (Equity + Non-current liabilities) / Non-current assets.

(3) Debt = Net financial debt / (Equity + Net financial debt) (%).

(4) Debt coverage = Net financial debt / Gross operating profit (EBITDA).

3. Regulatory Framework.

Information on Spain's regulatory framework is set out in Note 4 to the Consolidated Financial Statements for the year ended 31 December 2017.

There follows the main changes in the Spanish regulatory framework that either were approved in 2017 or had a major effect on the Consolidated Financial Statements for that year.

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, Royal Decree 1073/2015, of 27 November, 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 set the beginning of the first regulatory period as at 1 January 2016.

On 17 June 2016, Ministerial Order IET/980/2016, of 10 June 2016, was published in the Official State Gazette, setting remuneration on distribution activity for 2016 and awarding ENDESA a remuneration for the development of this activity of Euros 2,032 million (Euros 2,040 million considering incentives), of which Euros 2,014 million and Euros 2,023 million, respectively, corresponded to ENDESA Distribución Eléctrica, S.L.U. On 15 September 2017, the announcement of the Deputy Head of Resources, Claims and Relations with the Ministry of Justice was published in the Official State Gazette (BOE), informing of the hearing procedures for the order issued by the Ministry of Energy, Tourism and Digital Agenda, initiating the procedure to file a declaration of adverse effect on the public interest of Ministerial Order IET/980/2016, of 10 June.

On the other hand, recently, the Ministry of Energy, Tourism and Digital Agenda has initiated the application of the Order by which the remuneration of the distribution activity for 2017 is established, corresponding to ENDESA a remuneration for the development of this activity of Euros 2,116 million (Euros 2,092 million considering the incentives), of which Euros 2,094 million and Euros 2,070 million, respectively, correspond to ENDESA Distribución Eléctrica, S.L.U. (see Section 2.2. Analysis of results and 2.3. Segment Information in this Consolidated Management Report).

Royal Decree on the methodology for calculating the trading margin to be added to the Small Consumer Voluntary Price.

On 25 November 2016 the Official State Gazette (BOE) published Royal Decree 469/2016 of 18 November establishing the methodology for calculating the trading margin on the Small Consumer Voluntary Price, 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 establishing the procedure for calculating Small Consumer Voluntary Prices for electricity and the legal framework for contracting power.

On 24 December 2016 Ministerial Order ETU/1948/2016 was published - this came into force on 1 January 2017, and establishes the trading margin on the Small Consumer Voluntary Price. On 25 March 2017 Ministerial Order ETU/258/2017 was published, coming into force on 26 March 2017, and modifying the trading margin on the Small Consumer Voluntary Price to include the cost of contribution to the Energy Efficiency National Fund.

2017 electricity tariff

On 29 December 2016, the Official State Gazette (BOE) published Order ETU/1976/2016 of 23 December, which establishes the access tariffs for 2017.

In accordance with this Order, the access tariffs remained unchanged.

2018 electricity tariff

On 27 December 2017 the Official State Gazette (BOE) published Order ETU/1282/2017 of 22 December, which establishes the access tariffs for 2018.

In accordance with this Order, the access tariffs remained unchanged.

Natural gas tariff for 2017

Under Order ETU/1977/2016 of 23 December access tariffs in force in 2016 were largely maintained, having updated the Last Resort Tariffs with an average reduction of 9% resulting from lower raw material costs.

Natural gas tariff for 2018

Under Order ETU/1283/2017 of 22 December access tariffs in force in 2017 are largely maintained, having updated the Last Resort Tariffs with an average increase of 5% resulting from higher 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 ETU/258/2017 of 24 March entailed a contribution by ENDESA to the Energy Efficiency National Fund of Euros 29.3 million, corresponding to its 2017 obligations.

The Ministry of Energy, Tourism and Digital Agenda has started processing the proposed contribution for 2018. The amount proposed for ENDESA stands at Euros 28.5 million.

Renewable energy auction.

On 1 April 2017 the Official State Gazette (BOE) published Royal Decree 359/2017 of 31 March, establishing a call for assigning the specific remuneration system for new renewable energy production facilities through an auction with a maximum installed power limit of 3,000 MW.

This Royal Decree was enacted by Order ETU/315/2017 of 6 April, regulating the procedure for assigning the specific remuneration system in each auction, in addition to the remuneration parameters for reference and standard facilities, and characteristics of the auction, and the Resolutions issued by the Secretary of State for Energy on 10 April 2017 approving the call for an auction and the terms and conditions thereof.

As a result of this auction, which took place on 17 May 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 540 MW of wind power capacity (see Section 2.4. Scope of Consolidation and 4.5. Investments in this Consolidated Management Report).

Additionally, on 17 June 2017, Royal Decree 650/2017, of 16 June 2017, was published in the Official State Gazette (BOE), establishing a new installed capacity quota of 3,000 MW for new plants that generate power using renewable energy sources, enacted by Order ETU/615/2017, of 27 June, that establishes the assignment procedure and remuneration parameters for the auction, the Resolution issued by the Secretary of State for Energy on 30 June 2017, calling for an auction for the assignment of the specific remuneration regime for new renewable energy production facilities, pursuant to Royal Decree 650/2017, of 16 June.

As a result of this auction, which took place on 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 339 MW of photovoltaic capacity (see Section 2.4. Scope of Consolidation and 4.5. Investments in this Consolidated Management Report).

Fee for the use of continental waters to generate electricity.

On 10 June 2017, Royal Decree Law 10/2017 of 9 June was published in the Official State Gazette (BOE), establishing specific urgent measures to mitigate the effects of drought in certain river basins, amending the current Water Law.

Among other aspects, this Royal Decree Law modifies the tax on the fee for using continental waters to produce electric power from 22% to 25.5%, with a reduction for plants with capacity of up to 50 MW to offset the tax increase.

Social Bonus (or Social Tariff).

Law 24/2013, of 26 December 2013, required that the subsidised electricity tariff cost must be assumed, as a public service obligation, by parent companies or vertically-integrated groups of companies carrying out electricity generation, distribution and supply activities, to assume the cost of the subsidised electricity tariff in proportion to a percentage based on both their number of supply connections to distribution grids and the number of customers supplied, set for ENDESA at 41.10% in 2016 under Ministerial Order IET/1451/2016, of 8 September.

Despite the foregoing, in the Ruling of 24 October 2016 the Contentious-Administrative Section of the Supreme Court declared the Social Bonus financing system established by article 45.4 of Law 24/2013 of 26 December to be inapplicable, since it was incompatible with Directive 2009/72/EC of the European Parliament and of the Council, of 13 July 2009, concerning common rules for the internal market in electricity, and acknowledged the right of companies to recover the amounts paid. The State authorities submitted an application for dismissal of the Supreme Court ruling, which was overruled in a ruling dated 14 December 2016, and on 2 February 2017, an appeal was submitted against this decision before the Constitutional Court (see Note 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 3 October and 27 December 2017 Order ETU/929/2017, of 28 September and Order ETU/1288/2017, of 22 December, were published, implementing the different rulings handed down in this respect and the Spanish Markets and Competition Commission (CNMC) was ordered to pay the amounts corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 2.2. Analysis of results and 2.3. Segment Information in this Consolidated Management Report).

In 2017, the Company recognised this income in the consolidated income statement for the amount of Euros 222 million under “Other variable procurements and services” and Euros 15 million under “Financial income”, which has been collected in full at the date of preparation of this Consolidated Management Report (see Notes 26 and 30 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 24 December 2016, Royal Decree-Law 7/2016 of 23 December was published to regulate the financing of the costs of the Social Bonus and other measures to protect vulnerable electricity consumers. According to this Royal Decree Law the social bonus will be financed by the parents of company groups that carry out energy supply activities, or by the companies themselves if they do not form part of a corporate group, in the percentage corresponding to their customer share. This percentage will be calculated annually by the CNMC.

The sole transitional provision of the Royal Decree Law establishes the percentage distribution for the Social Bonus to be applied since it came into effect, with 37.7% corresponding to ENDESA in 2017.

In January 2018, the Spanish Markets and Competition Commission (CNMC) published the proposed percentage of financing for 2018, with 37.14% corresponding to ENDESA.

On 7 October 2017 Royal Decree 897/2017, of 6 October, was published, regulating the figure of the vulnerable customer, the Social Bonus and other protection measures for domestic electricity consumers, in addition to Order ETU/943/2017, of 6 October, enacting Royal Decree 897/2017, of 6 October.

Among other aspects, three categories of vulnerable customers have been identified based on the average income level through the Spanish Public Income Index (IPREM), establishing different discount percentages according to each category. The three categories are:

- Vulnerable customers (25% discount).
- Severely vulnerable customers (40% discount).
- Severely vulnerable customers at risk of social exclusion (100% discount), classified as severely vulnerable customers for which the social services can be proved to be paying at least 50% of their invoice.

This Royal Decree also regulates other aspects relating to supply and, among others, raises from two to four months the term for cutting off of supply to vulnerable customers (severely vulnerable customers at risk of social exclusion cannot be cut off as power is considered to be a basic supply).

Availability service.

On 23 November 2017, Order ETU/1133/2017, of 21 November, was published, amending Order IET/2013/2013, of 31 October, regulating the competitive mechanism for assigning the management service for interruptibility demand.

Among other aspects, the Order amends the remuneration for the availability service, extends the service to the first half of 2018 and eliminates hydro facilities from the collection of this availability service during this period.

4. Liquidity and Capital Resources.

4.1. Financial Management.

As part of an efficient cost management and optimisation policy, the finance function in Spain is centralised in ENDESA.

At the date of authorisation of this Consolidated Management Report, the Company had the necessary liquidity and access to medium/long-term financial resources to ensure the availability of the funds required to meet its future investment obligations and debt maturities.

ENDESA maintains the same principles of prudence as applied to date in its financial structure: obtaining medium/long-term funding that enables it to adjust its maturity calendar to the capacity of cash-flow generation envisaged in the business plan. To do this, it:

- Uses external financing, especially through the banking and capital markets.
- Obtains funds from public authorities that offer attractive terms for very long-term loans.
- Has short-term financing in place that helps optimise the management of its working capital requirements and improve the cost of its debt. This financing is obtained through bank credit facilities with leading financial institutions or through the issue of Euro Commercial Paper (ECP).

ENDESA's also carries out transactions with ENEL Group companies in which the applicable transfer pricing regulations are followed.

Financial position.

In 2017, European sovereign debt interest rates rose from 2016 lows. The Spanish 10-year bond yield increased from 1.38% at the start of the year to 1.56% at year-end 2017, in line with the German 10-year bond yield, which increased by 22 basis points to 0.42%. As a result, country risk for Spain (the spread with the German 10-year bond) closed 2017 at 114 basis points, a similar level to that seen at year-end 2016. In other peripheral euro zone countries, the Italian risk premium stood at 158 basis points, in line with 2016, while the Portuguese risk premium fell to 149 basis points, from 354 b.p. at year-end 2016.

In 2017, the European Central Bank (ECB) kept interest rates in the euro zone at the historic low of 0% and opted for an alternative method to reduce quantitative expansion (QE), trimming back its monthly asset purchases to Euros 30,000 million but extending the programme at least until September 2018.

In 2017, euro long-term interest rates (10-year swap) rose from 0.66% at the beginning of the year to 0.89% by year-end. The short-term interest rate (3-month Euribor) remained at -0.33%. The long-term interest rate on the US dollar (USD) (10-year swap) rose slightly in 2017 from 2.34% to 2.40%, while the short-term interest rate on the US dollar (USD) increased from 1.00% to 1.69%.

In 2017, the euro strengthened by 14% against the US dollar (USD), causing the EUR/USD exchange rate to rise from 1.05 at the beginning of the year to 1.20 at year-end, affected by the waning of the bullish effect of Trump's tax reform on the USD, the reduction of political risk in the euro area and the convergence between the economic cycles in euro area and the United States.

Financial debt.

As of 31 December 2017, ENDESA had net financial debt of Euro 4,985 million, an increase of Euro 47 million (+1%) compared to the debt at 31 December 2016.

The reconciliation of ENDESA's gross and net financial debt at 31 December 2017 is as follows:

Millions of Euros				
	Reconciliation of financial debt			
	31 December 2017	31 December 2016	Difference	% Var.
Non-current interest-bearing loans and borrowings	4,414	4,223	191	4.5
Current interest-bearing loans and borrowings	978	1,144	(166)	(14.5)
Gross financial debt ⁽¹⁾	5,392	5,367	25	0.5
Cash and cash equivalents	(399)	(418)	19	(4.5)
Derivatives recognised as financial assets	(8)	(11)	3	(27.3)
Net financial debt	4,985	4,938	47	1.0

(1) At 31 December 2017 this includes Euros 12 million corresponding to financial derivatives recognised under financial liabilities (Euros 17 million at 31 December 2016).

For the purposes of assessing net debt in 2017, it must also be borne in mind that on 2 January 2017 ENDESA paid shareholders an interim dividend against 2016 profits of Euro 0.70 per share, entailing a disbursement of Euros 741 million, and on 3 July 2017 it paid an additional gross dividend against 2016 profits of Euro 0.633 per share, entailing a disbursement of Euros 670 million (see Section 13.2. Dividend policy in this Consolidated Management Report).

The structure of ENDESA's gross financial debt at 31 December 2017 and 2016, was as follows:

Millions of Euros				
	Structure of gross financial debt			
	31 December 2017	31 December 2016	Difference	% Var.
Euro	5,392	5,367	25	0.5
TOTAL	5,392	5,367	25	0.5
Fixed rate	3,611	3,661	(50)	(1.4)
Floating rate	1,781	1,706	75	4.4
TOTAL	5,392	5,367	25	0.5
Average life (years) ⁽¹⁾	6.1	6.5	-	-
Average cost (%) ⁽²⁾	2.1	2.5	-	-

(1) Lifespan of gross financial debt (years) = (principal * number of days of term) / (principal in force at 31 December * 365 days).

(2) Average cost of gross financial debt (%) = (cost of gross financial debt) / gross average financial debt.

At 31 December 2017, 67% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 33% accrued interest at floating rates. At this date, 100% of the Company's gross financial debt was denominated in euros.

Information concerning the maturities of ENDESA's gross financial debt is set out in Note 18 to the Consolidated Financial Statements for the year ended 31 December 2017.

Main financial transactions.

Within the framework of the financial transaction (ENDESA Network Modernisation) concluded with the European Investment Bank (EIB) in 2014, Tranches B and C (each one of Euros 150 million) were available on 18 January 2017 and 20 February 2017, thus completing the provision of the transaction for a total amount of Euros 600 million. Both provisions are variable, with a 12-year maturity payable as of 2021.

In 2017, ENDESA, S.A. concluded agreements with different financial institutions for the extension to three years with a possibility of extending to five years of most of its credit lines for Euros 1,985 million.

On 30 June 2017 ENDESA, S.A. successfully renegotiated the conditions of the irrevocable and committed inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000

million, extending its maturity to 30 June 2020 and reducing the margin and fee applicable, if the facility is not used, to 55 b.p. and 18 b.p. respectively. At 31 December 2017, this committed line of credit had not been drawn down.

On 21 December 2017, ENDESA, S.A. subscribed to financing, yet to be paid at the date of preparation of this Consolidated Management Reports, with the European Investment Bank for the amount of Euros 500 million, maturing in 12 years and offering a three-year grace period.

On 28 December 2017, ENDESA S.A. renewed the uncommitted inter-company credit facility arranged with ENEL Finance International N.V., for Euros 1,500 million, extending the maturity to 28 December 2018, with the rest of the terms unchanged. At 31 December 2017, this uncommitted line of credit had not been drawn down.

In 2017, ENDESA maintained the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., and the outstanding balance at 31 December 2017 was Euros 889 million, renewable with the backing of irrevocable lines of bank credit.

Liquidity.

As of 31 December 2017, ENDESA's liquidity stood at Euros 3,495 million (Euros 3,620 million at 31 December 2016) as detailed below:

Millions of Euros				
	Liquidity			
	31 December 2017	31 December 2016	Difference	% Var.
Cash and cash equivalents	399	418	(19)	(4.5)
Unconditional availability in lines of credit ⁽¹⁾	3,096	3,202	(106)	(3.3)
TOTAL	3,495	3,620	(125)	(3.5)
Coverage of maturities (number of months) ⁽²⁾	29	17	-	-
⁽¹⁾ At 31 December 2017 and 2016, Euros 1,000 million were accounted for by the committed and irrevocable line of credit arranged with ENEL Finance International, N.V.				
⁽²⁾ Coverage of debt maturities (number of months) = maturity period (number of months) for vegetative debt that could be covered with the liquidity available.				

Treasury investments considered as "Cash and cash equivalents" are high liquidity and entail no risk of changes in value, mature within 3 months from their contract date and accrue interest at the market rates for such instruments. Information on ENDESA's cash and cash equivalents is set out in Note 14 to the Consolidated Financial Statements for the year ended 31 December 2017.

Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 14 and 15.1.12 to the Consolidated Financial Statements for the year ended 31 December 2017.

4.2. Capital Management.

ENDESA's capital management focuses on maintaining a solid financial structure that optimises the cost of capital and the availability of financial resources to guarantee business continuity over the long term. This policy of financial prudence makes it possible to maintain an adequate level of value creation for shareholders while guaranteeing ENDESA's liquidity and solvency.

ENDESA considers its consolidated leverage ratio to be an indicator of its ongoing financial position. Details of this ratio at 31 December 2017 and 2016 are as follows:

Millions of Euros

	Leverage ⁽¹⁾	
	31 December 2017	31 December 2016
Net financial debt:	4,985	4,938
Non-current financial debt	4,414	4,223
Current financial debt	978	1,144
Cash and cash equivalents	(399)	(418)
Derivatives recognised as financial assets	(8)	(11)
Equity:	9,233	9,088
Of the Parent	9,096	8,952
Of non-controlling interests	137	136
Leverage (%)	53.99	54.34

(1) Leverage (%) = Net financial debt /equity.

The Company's directors consider that its leverage will enable it to optimise the cost of capital while maintaining a high solvency ratio. Therefore, in due consideration of expectations of earnings and the investment plan, the future dividend policy will maintain a leverage ratio to achieve the aforementioned capital management target.

At the date on which this Consolidated Management Report was drawn up, ENDESA had no commitments to obtaining funds through its own sources of finance.

Information on capital management is provided in Note 15.1.11 to the Consolidated Financial Statements for the year ended 31 December 2017.

Information on investments and shareholder remuneration is provided in Section 6.3. Main financial indicators and 13.2. Dividend policy in this Consolidated Management Report.

4.3. Credit Rating Management.

2017 was a relatively quiet year on the fixed income market, even though central banks started to plan adjustments to normalise monetary market after ten years of expansive policy.

The Spanish risk premium, which compares the Spanish and German bonds, closed the year at 114 basis points, 2 less than at the start of 2017. The annual high was observed in February, when it hit 156.5 basis points, and on 4 October 2017, days after the Catalonia independence referendum, it rose again, to 132.5 basis points.

This scenario of relative calm, despite the political uncertainty caused by the situation in Catalonia, was reflected by the main rating agencies. On 21 July 2017, Fitch Ratings raised the outlook for its sovereign rating from stable to positive, maintaining its BBB+ rating, and on 29 September 2017 Standard & Poor's confirmed its rating of BBB+/A-2 for Spain, also with a positive outlook. On 19 January 2018, Fitch raised its sovereign rating to A-, with a stable outlook.

With regard to the electricity sector, fundamentals remained healthy both in terms of stability of demand and tariff sufficiency.

Standard & Poor's raised its rating for ENDESA from BBB to BBB+ on 7 December 2017, maintaining the stable outlook which it had downgraded from positive in May. This review formed part of a general review of ENEL's rating following the presentation of its Strategic Plan for 2018-2020 and was based on the Group's capacity to optimise its cost structure through digitalisation programmes, its focus on regulated business and the renewables sectors, and the simplification of its shareholder structure.

The other rating agencies that cover ENDESA affirmed their ratings in 2017. On 16 May 2017, Fitch Ratings confirmed its BBB+ rating, with a stable outlook, and on 31 August 2017, Moody's confirmed its Baa2 rating, also with a stable outlook.

Developments in ENDESA's credit ratings in 2017 were as follows:

	Credit rating					
	31 December 2017 ⁽¹⁾			31 December 2016 ⁽¹⁾		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB+	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

(1) At the respective dates of authorisation of the Consolidated Management Report.

ENDESA's credit rating is conditioned by the rating of its parent company ENEL according to the methods employed by rating agencies and, as of 31 December 2017, has been classified as "investment grade" by all the rating agencies.

ENDESA works to maintain its investment grade credit rating to be able to efficiently access money markets and bank funding, and to obtain preferential terms from its main suppliers.

4.4. Cash Flows.

At 31 December 2017, cash and cash equivalents stood at Euros 399 million (Euros 418 million at 31 December 2016).

At 31 December 2017 and 2016, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros					
	Statement of cash flows				
	2017	2016	Difference	% Var.	
Net cash flows from operating activities	2,438	2,995	(557)	(18.6)	
Net cash flows used in investing activities	(1,115)	(2,317)	1,202	(51.9)	
Net cash flows used in financing activities	(1,342)	(606)	(736)	121.5	

In 2017, net cash flows from operating activities (Euros 2,438 million) helped cover the net investment required to conduct ENDESA's businesses (Euros 1,115 million), in addition to net cash flows from financing activities (Euros 1,342 million), while cash and cash equivalents fell Euros 19 million during the period.

Information on ENDESA's consolidated statements of cash flow is set out in Note 33 to the Consolidated Financial Statements for the year ended 31 December 2017.

Cash flow from operating activities.

In 2017, net cash flow from operating activities totalled Euros 2,438 million, a decrease of Euros 557 million (-18.6%) compared to 2016 (Euros 2,995 million) and present the detail that appears below:

Millions of Euros		
	2017	2016
Profit before tax	1,900	1,710
Adjustments for:	1,579	1,840
Depreciation and amortisation, and impairment losses	1,511	1,467
Other adjustments (net)	68	373
Changes in working capital	(370)	217
Trade and other receivables	(387)	(57)
Inventories	(241)	(162)
Current financial assets	(554)	336
Trade payables and other current liabilities	812	100
Other cash flows from/(used in) operating activities:	(671)	(772)
Interest received	44	27
Dividends received	27	22
Interest paid	(134)	(128)
Income tax paid	(350)	(346)
Other receipts from and payments for operating activities	(258)	(347)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,438	2,995

Concerning the variations in the different items determining the net cash flows from to operating activities:

- In 2017, the net cash flows from operating activities include the incorporation of ENEL Green Power España S.L.U. (EGPE) and Eléctrica del Ebro, S.A.U. to the consolidation scope for the amount of Euros 195 million and Euros 6 million respectively (Euros 65 million and Euros 1 million, respectively in 2016 from their respective takeover dates) (see Section 2.4 Consolidation Scope of this Consolidated Management Report).
- The changes in working capital between both periods for the amount of Euros 587 million, resulting mainly from the reduction of Euros 833 million in net receipts from corresponding to the compensation for extra-costs corresponding to Non-mainland Territories generation (TNP) (see Section 3. Regulatory Framework of this Consolidated Management Report and Notes 4, 13, 19.1.1 and 23 to the Consolidated Financial Statements for the year ended 31 December 2017).
- These changes also reflect the amount pending receipt of the Social Bonus as a result of the passing of several rulings relating thereto (see Notes 4, 17.3, 26 and 30). (see Section 3. Regulatory Framework of this Consolidated Management Report and Notes 4, 17.3, 26 and 30 to the Consolidated Financial Statements for the year ended 31 December 2017).
- In 2017 the Company has also continued with its active policy concerning the management of current assets and liabilities, focusing on, among other aspects, the improvement of processes, the factoring of accounts receivable (see Note 13 to the Consolidated Financial Statements for the year ended 31 December 2017) and agreements extending payment periods with suppliers (see Note 23 to the Consolidated Financial Statements for the year ended 31 December 2017).
- The changes in other operating activity receipts and payments in both periods for the amount of Euros 89 million, mainly as a result of the lower payments for provisions, corresponding to workforce restructuring plans (see Note 17.2 to the Consolidated Financial Statements for the year ended 31 December 2017).

At 31 December 2017 and 2016 working capital broke down as follows:

Millions of Euros	31 December 2017	31 December 2016
Current assets ⁽¹⁾	5,131	5,015
Inventories ⁽²⁾	1,267	1,202
Trade and other receivables ⁽³⁾	3,100	3,452 ⁽⁴⁾
Current financial assets	764 ⁽⁵⁾	361 ⁽⁶⁾
Current liabilities ⁽⁷⁾	6,557	6,377
Current provisions ⁽⁸⁾	425	567
Trade and other payables ⁽⁹⁾	6,132 ⁽¹⁰⁾	5,810 ⁽¹¹⁾

(1) Excluding "Cash and cash equivalents" and Financial derivative assets corresponding to financial debt.

(2) See Note 12 to the Consolidated Financial Statements for the year ended 31 December 2017.

(3) See Note 13 to the Consolidated Financial Statements for the year ended 31 December 2017.

(4) Includes the acquisition price of the systems and telecommunications activity (ICT) paid on 29 December 2016, totalling Euros 246 million (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

(5) Includes Euros 222 million relating to collection rights for financing of the deficit in regulated activities, Euros 70 million relating to remuneration on distribution activity and Euros 304 million relating to compensation for extra-costs in Non-mainland Territories generation (TNP) (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

(6) Includes Euros 258 million relating to collection rights for financing of the deficit in regulated activities and Euros 32 million relating to remuneration on distribution activity (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

(7) Excluding Current Financial Debt and Financial Derivative Liabilities corresponding to financial debt.

(8) See Note 24 to the Consolidated Financial Statements for the year ended 31 December 2017.

(9) See Note 23 to the Consolidated Financial Statements for the year ended 31 December 2017.

(10) Includes the interim dividend with a charge against 2017 profits of Euros 741 million, paid on 2 January 2018 (see Section 13.2. Dividend policy in this Consolidated Management Report).

(11) Includes the interim dividend with a charge against 2016 profits of Euros 741 million, paid on 2 January 2017, (see Section 13.2. Dividend policy in this Consolidated Management Report), and Euros 296 million relating to compensation for extra-costs in Non-mainland Territories generation (TNP) (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

Net cash flows used in investment activities.

In 2017 net cash flows used in investing activities stood at Euros 1,115 million, down 51.9% compared to 2016 (Euros 2,317 million) and include, among others:

- The net cash payments for the acquisition of property, plant and equipment and intangible assets for the amount of Euros 971 million (Euros 1,144 million in 2016) (see Section 4.5. Investments in this Consolidated Management Report).

- The payments of the investments and/or collections of the disposals in shareholdings in Group Companies as detailed below:

Millones de Euros

	Sections	2017	2016
Investments in shareholdings in Group Companies		(2)	(1,196)
Corporate transactions related to capacity awarded in renewable power auctions	2.4	(1)	-
Eléctrica de Jafre, S.A.	2.4	(1)	-
ENEL Green Power España, S.L.U. (EGPE)	2.4	-	(1,178)
Eléctrica del Ebro, S.A.U.		-	(18)
Disposals in shareholdings in Group Companies		16	135
Aquila Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.	2.4	16	-
Energía de La Loma, S.A. and Energías de la Mancha Eneman, S.A.		-	21
ENEL Insurance N.V.		-	114

Net cash flows using in financing activities.

In 2017, net cash flows used in financing activities stood at Euros 1,342 million, a rise of 121.5% compared to 2016 (Euros 606 million) and mainly include the following:

- Proceeds from the following non-current borrowings:

Millions of Euros

	Sections	2017	2016
Proceeds from Tranches B and C of European Investment Bank (EIB)	4.1	300	-
Proceeds from Credit Line		-	90
Other proceeds		15	19

- Repayments of the following non-current borrowings:

Millions of Euros

		2017	2016
Repayments of Bonds issued by International ENDESA B.V.		20	-
Repayments of Loans with Natixis		21	-
Repayments of Credit Line		-	105
Other repayments		33	13

- Payment of the following dividends:

Millions of Euros

	Sections	2017	2016
Dividends of the Parent Paid	13.2	1,411	1,086
Dividends to Non-controlling Interests Paid ⁽¹⁾		4	3

(1) Corresponding to companies of ENEL Green Power España, S.L.U. (EGPE).

- The net payment of Euros 3 million relating to the acquisition of non-controlling interests in the companies Productor Regional de Energía Renovable, S.A. and Productor Regional de Energías Renovables III, S.A. (see Note 2.3.1 and 15.2 to the Consolidated Financial Statements for the year ended 31 December 2017).

4.5. Investments.

In 2017, gross investment by ENDESA totalled Euros 1,175 million (Euros 1,221 million in 2016), of which Euros 978 million related to Investments in property, plant and equipment, Euros 133 million to investments in intangible assets, and Euros 64 million to financial investments, as follows:

Millions of Euros

	Investments ⁽¹⁾		
	2017 ⁽²⁾	2016 ⁽³⁾	% Var.
Generation and supply	358	388	(7.7)
Distribution	610	595	2.5
Others	10	2	400.0
TOTAL PROPERTY, PLANT AND EQUIPMENT	978	985	(0.7)
Generation and supply	48	57	(15.8)
Distribution	47	55	(14.5)
Others	38	31	22.6
TOTAL INTANGIBLE ASSETS	133	143	(7.0)
FINANCIAL INVESTMENTS	64	93	(31.2)
TOTAL GROSS INVESTMENT	1,175	1,221	(3.8)
TOTAL NET INVESTMENTS ⁽⁴⁾	982	1,028	(4.5)

(1) Does not include business combinations made during the year (see Sections 2.4. Consolidation Scope and 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

(2) Includes gross investments made by ENEL Green Power España, S.L.U. (EGPE) amounting to Euros 24 million.

(3) Includes gross investments made by ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 14 million.

(4) Net investments = Gross investments - Capital grants and transferred facilities.

Investments in property, plant and equipment

Gross generation investments in 2017 related largely related to plants that were already operating at 31 December 2016, as well as investments in the Litoral coal plant in the amount of Euros 39 million and the As Pontes coal plant in the amount of Euros 34 million in connection with the Industrial Emissions Directive, which extended their useful lives. It also includes investment in upgrading major components of renewable technology assets.

ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 540 MW of wind power capacity and 339 MW of photovoltaic capacity in the auctions conducted by the Ministry of Energy, Tourism and Digital Agenda on 17 May 2017 and 26 July 2017, respectively, and expects to invest approximately Euros 870 million in constructing the awarded capacity, of which Euros 7 million had already been spent at 31 December 2017 (see Section 3. Regulatory Framework in this Consolidated Management Report).

Gross investments in supply mainly related to the development of the activities related to added-value products and services (PSVAs).

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

Investment in Intangible Assets.

Gross investment in intangible assets in 2017 correspond, mainly to software and ongoing investments in the ICT activity, including the adaptation of the ERP system to the new Evolution for Energy (E4E) SAP.

Financial investments.

Financial investments in 2017 corresponds mainly to the contribution of funds of Euros 38 million to Nuclenor, S.A.

4.6. Contractual Obligations and Off-Balance Sheet Operations.

Information concerning future purchase commitments is provided in Notes 6, 8 and 12 to the Consolidated Financial Statements for the year ended 31 December 2017, broken down as follows:

	Future electricity purchase commitments	
	31 December 2017	31 December 2016
Property, plant & equipment	364	338
Intangible assets	7	2
Financial assets	-	-
Purchases of fuel stocks and others	18,739	20,652
Purchases of fuel stocks	18,656	20,596
Electricity purchases	17	-
Purchases of carbon dioxide (CO ₂) emission rights, Certified Emission Reductions CERs and ERUs	66	56
TOTAL	19,110	20,992

ENDESA has no special purpose entities, understood as entities that ENDESA, even when it does not hold a controlling interest, effectively controls, understood as the fact that it substantially obtains most of the profits earned by the entity and retains most of the risks involved.

5. Events after the Reporting Period.

Information concerning events after the reporting period is provided in Note 39 to the Consolidated Financial Statements for the year ended 31 December 2017.

6. Outlook.

6.1. Energy paradigm.

Over the past few years ENDESA has confirmed its commitment to developing a more sustainable and efficient business model, drawing up a comprehensive plan aimed at addressing the challenges facing the energy sector and taking advantage of any new opportunities that may arise.

ENDESA favours a new energy paradigm, transforming its economic and industrial model towards model that is clearer, more dynamic and sustainable, based on a fully decarbonised economy by the year 2050.

ENDESA estimate that the development of the Energy sector will be mainly subject to the following trends:

- Growing penetration renewable energies, which will increase in the future to achieve CO₂ emissions reductions targets.
- The progressive electrification of the electricity system.
- Strong competitive and institutional pressure for energy efficiency.
- Increased customer sophistication.
- Other relevant aspects such as commodity price volatility, the growing digitalisation of industry and sector convergence.

The European Union has expressed its intention of fighting against global warming and has set a target for the full decarbonisation of the economy between the years 2050 and 2100, setting specific and ambitious targets for member countries, which in the case of Spain, have been almost fully embraced.

ENDESA estimates that compliance with decarbonisation targets in Spain will lead to the development of initiatives such as the following:

- Electrification of demand.
- Increased penetration of renewable resources in the electricity generation mix.
- A drive for energy efficiency in all sectors.
- Roll out of smart grids.
- Guaranteed security of supply, preserving efficient conventional generation which will be essential during the transformation to full decarbonisation.

These initiatives will also lead to the implementation of specific measures, such as:

- A tax reform to eliminate current penalties on electricity consumers.
- A drive toward electrification through new electricity tariffs based on grid use and the development of infrastructures for the electrification of the transmission system and electrification-focused investments.
- Guarantee of an efficient remuneration plan for new grid investments.
- Progressive and orderly maximisation of renewable energies in the generation mix, based on market mechanisms.
- The implementation of a capacity market that guarantees and strengthens future security of supply.

ENDESA accordingly expects the road towards decarbonisation to change the electricity production mix, giving greater weight to renewable energies, and that the electrification of transmission networks will require fresh investment to automate the grid, which will also change the current business model as it will evolve from electricity sales to the provision of new products and services.

Achieving the decarbonisation of the economy requires a drive towards the large-scale electrification of energy demand through measures designed to boost the internalisation of the cost of carbon dioxide (CO₂) emission rights in all sectors, the development of electrical mobility plans and recharging infrastructure, actively backed by distribution operators, and the rationalisation of the electricity tariff to build an energy model with an efficient distribution of costs.

The electrification of demand should be accompanied by an improvement in energy efficiency, through the development of plans to promote the adoption of this type of measures.

In this new process of electrification and improved energy efficiency, based on expected energy consumption levels, ENDESA estimates that Spain will need more than 40 GW (GW = Gigawatt) of new production capacity in 2015-2030 and, in line with decarbonisation targets, this new capacity will be fully renewable, thereby changing the weighting of electricity produced using renewable sources from 36% in 2015 to approximately 63% in 2030.

In this scenario, hydro, nuclear and thermal technologies (coal and combined cycle plants), in addition to interconnexion capacity, are expected to play a key role in assuring a smooth and successful transition in terms of price and security of supply during this decarbonisation period, bearing in mind that the premature closure of conventional generation plants will reduce the availability of capacity as it will not be able to be replaced with renewable capacity.

Lastly, the automation and digitalisation of the grid will be a key factor to optimise investments in electricity and operation of the electricity system.

6.2. Strategic pillars.

Taking these trends into consideration, and to capture the expected growth and continue to consolidate its position in the current market, ENDESA's strategic plan is fully aligned with the new energy paradigm and forthcoming challenges and will be based on the following priorities:

- 1) Focus on the customer to maximise value and be a leader in the energy solutions business.
- 2) Development and operation of more efficient grids.
- 3) Decarbonisation of generation facilities, maintaining security of supply.
- 4) Achieving these strategic lines will require a commitment to digitalisation, innovation and efficiency.

Further, all the objectives set out in ENDESA's strategic plan are fully in line with the sustainable development commitments in its Sustainability Plan (see Section 8. Sustainability Plan in this Consolidated Management Report).

The strategic plan ensures an attractive long-term shareholder remuneration policy (see Section 12.3. Dividend policy in this Consolidated Management Report).

1) Focus on the customer to maximise value and be a leader in the energy solutions business.

A customer-centric focus will require the following measures to be carried out:

- Consolidation of ENDESA's current position on the Spanish gas and electricity supply market, and growth of its businesses in France and Portugal in the Business-to-Consumer (B2C) and Business-to-Business (B2B) segments. To achieve these targets, a series of measures has been defined to maximise the number of deregulated market customers through the active management of ENDESA's customer base.
- Develop measures focused on maintaining and improving margins, for which ENDESA will continue to manage its electricity generation and supply businesses in an integrated manner.
- Direct the transformation of the business towards efficiency and a better knowledge of the customer through the development of analytical skills and management aimed at segments offering higher value creation.
- Develop more efficient and sophisticated products through the creation of a new business line specifically for this purpose, known as e-Solutions, which will focus on energy solutions in the spheres of industry, mobility, city and home.

2) Development and operation of more efficient grids.

The development of the grid is also a key line of ENDESA's strategy and projected investment, driven by the electrification of demand and the inclusion of renewable energies, aims to improve quality and efficiency and reduce operating costs.

ENDESA has identified the following initiatives to make preparations for tomorrow's electricity network:

- Digitalisation of the grid, which will account for approximately 60% of the projected investment plan for distribution in 2017-2020. These investments will focus mainly on completing the project to install digital meters, grid automisation, improved efficiency in service quality and the reduction of losses.
- The modernisation and development of innovation projects for the grid, which will account for approximately 10% of the projected investment plan for distribution in 2017-2020.
- The extension and improvement of the grid through new investment, which will also maintain the stability of the regulatory distribution asset base (RAB) in 2017-2020 at approximately Euros 11 thousand.

3) Decarbonisation of generation facilities, maintaining security of supply.

ENDESA's commitment to the gradual reduction of emissions to achieve the final zero emissions targets in 2050 is reflected in the following strategic lines:

- Significant growth in generation using renewable technologies, resulting mainly from the awards conferred on ENDESA in the capacity auctions held in 2017 (see Section 3. Regulatory Framework and 4.5. Investments in this Consolidated Management Report). In the next three years, a total of 939 MW (540 MW wind capacity and 399 MW photovoltaic capacity) is expected to be included through a projected investment of around Euros 900 million, in addition to monitoring other growth opportunities. Considering ENDESA's experience and knowledge of the market, in addition to its integrated management of its generation assets, the increased capacity to produce energy using renewable sources will enable the Group to diversify its generation mix, mitigate regulatory and market risk, profit from synergies and improve its cost base.
- The long-term operation of nuclear plants safely and efficiently in terms of costs, in order to ensure the security of supply.
- Preserve the operation of certain coal plants that are efficient and aligned with environmental regulations, in order to prevent further investment in capacity that could increase the cost of the electricity system, emissions and energy prices.
- Investment in Non-mainland Territories generation (TNP) assets to maintain the asset base and ensure security of supply, in accordance with current environmental regulations. Potential measures include the inclusion of new capacity (290 MW), closure of facilities (418 MW) and the launch of pilot storage technology schemes (80 MW).

4) Commitment to digitalisation, innovation and efficiency, and the development of an efficient and sustainable plan.

ENDESA is heavily committed to digitalisation and the constant search for efficiency, and to this end expects to deploy investment plans in all its lines of Business to achieve further cost reductions.

In terms of the digitalisation strategy, ENDESA's key lines will be as follows:

- *Customers*: increase the proportion of deregulated customers with electronic billing, in addition to digital interactions and sales.
- *Assets*: foster the use of "big data" and "IoT" in the generation business, automating the grid and completing the rollout of digital meters.
- *Employees*: develop a specific "People Digital Transformation" plan to foster the cultural change and employee commitment to digitalisation.

To achieve these goals, ENDESA is also preparing the latest tools available for the development of the digitalisation process in areas such as cyber security, technology platforms and migration to data servers.

In terms of strategic efficiency targets, ENDESA remains heavily committed to a constant search for efficiency, and the main plans deployed for this purpose are:

- *Generation*: ongoing development of improvement and fuel management optimisation programmes, and in the specific case of renewable energies, the securing of cost synergies, thanks to the unification of operation and maintenance management across all plants, among other measures.
- *Distribution*: automation of the transmission network, completion of the plan to implement digital meters and cost optimisation programmes (personnel, equipment and systems).
- *Supply*: digitalisation initiatives and measures to reduce customer capture costs.

6.3. Main financial indicators.

The industrial plan approved by the Board of ENDESA, S.A. on 21 November 2017 contemplates an investment target, net of subsidies and assets assigned by customers, in the amount of Euros 5,000 million between 2017 and 2020, broken down into:

- Investment in growth (55%).
- Investment in maintenance (45%).

The breakdown of the investment plan by lines of business is as follows:

- *Generation* (54%), with mainland investment (22%), Non-mainland Territories (TNP) (14%) and renewables (18%). Most of this focuses on recurring maintenance investment and selective environmental investment in imported coal-fired plants to comply with EU emissions legislation. Non-mainland Territories (TNP) investment contemplates maintenance, environmental protection and selective capacity substitutions. Investment in renewables will concentrate on developing new capacities.
- *Distribution* (40%), with maintenance and growth investment to deploy smart meters, and development of the quality plan to expand grid automation.
- *Supply* (6%), with investment in developing new IT tools to foster customer digitalisation and the development of new products and services.

On the basis of the strategic pillars described above, in due consideration of estimates of economic indicators, market and regulatory trends in the years ahead, ENDESA has drawn up a business plan including, among other parameters, forecasts of economic indicators for the Group's consolidated results. Therefore, ENDESA expects a positive performance of:

- EBITDA: Euros 3.7 billion in 2020.
- Net profit: Euros 1.6 billion in 2020.
- Net cash flows from operating activities, which are expected to total Euros 6.7 billion in 2018-2020 will enable ENDESA to carry out its investment plan and maintain an attractive shareholder remuneration policy.

Notwithstanding the foregoing, prospective information cannot be considered a guarantee of the Company's future performance in that plans and forecasts are subject to risks and uncertainties which could result in ENDESA's future performance not matching the initial forecasts (see Section 7. Main risks and uncertainties in connection with ENDESA's business in this Consolidated Management Report).

7. Main risks and uncertainties in connection with ENDESA's business.

7.1. Risk control and management policy.

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors of ENDESA, S.A. to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

The Risk Management and Control Policy defines ENDESA's risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and appropriate use of capital.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A. It consists of the parties responsible for each of the Company's business lines and corporate areas, and the following functions are assigned to it:

- Regularly provide the ENDESA, S.A. Board of Directors with an integrated view of current and foreseeable risk exposure.
- Ensure that senior management participates in strategic risk management and control decisions.
- Guarantee the coordination between the risk management units and those units responsible for their control, and compliance with the Risk Management and Control Policy and its associated internal procedures.
- Ensure the correct working of the risk control and management systems and, in particular, that they identify, manage, and adequately quantify all major risks.
- Actively participate in drawing up the risk strategy and in important decisions regarding its management.
- Ensure that the risk control and management systems appropriately mitigate risk as part of the risk control and management policy.

The general guidelines for the Risk Management and Control Policy are developed and supplemented by other corporate and specific risk policies for each business line, as well as the limits established for optimum risk management.

The risk management and control model is based partly on the ongoing study of the risk profile, current best practices in the electricity sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising their risk-return ratio, as determined by the Board of ENDESA, S.A.

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred and its aim is to adequately control and manage those risks:

- **Identification:** the purpose of identifying risks is to maintain a prioritised and updated repository of all the risks assumed through coordinated and efficient participation at all levels of the Company.
- **Measurement:** the purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- **Control:** the purpose of risk control is to guarantee that the risks assumed by ENDESA are appropriate to the objectives set, ultimately, by the ENDESA, S.A. Board of Directors.
- **Management:** the purpose of risk management is to implement actions aimed at adjusting risk levels at each level of ENDESA to the risk tolerance and predisposition established.

This process sets out to secure an overview of risk to assess and prioritise all risks. It covers the main financial and non-financial risks to which ENDESA is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks, characterised and quantified, and establishing regular reviews.

Moreover, due to the increased interest in the control and management of the risk that companies are exposed to and given the complexity that identifying it from a comprehensive point of view is acquiring, the participation of employees is important at all levels of this process. A risk mailbox has now been created for employees to help identify market risks and come up with suggestions for measures to mitigate them, thereby completing the existing top-down risk management and control systems and mailboxes and specific procedures to send in communications in connection with breaches of ethical behaviour, criminal risks and employment risks.

To boost these initiatives, the ENDESA, S.A. Board of Directors also improved a Tax Risk Management and Control Policy to guide and direct strategic, organisational and operating activities to enable the acceptable tax risk level to be precisely defined, to help tax managers meet the policy's fiscal objectives.

The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A., and is available on its website at www.endesa.com.

Information regarding ENDESA's risk management and the use of derivative financial instruments is provided in Notes 19.3 and 20 to the Consolidated Financial Statements for the year ended 31 December 2017.

The Annual Corporate Governance Report is attached to this Consolidated Management Report as Appendix II, and describes ENDESA's risk management and control systems.

7.2. Main risks and uncertainties.

ENDESA's activities are carried out in an environment where outside factors may affect the performance of its operations and its earnings. The main risks to which ENDESA's operations are exposed are as follows:

7.2.1. Business and sector-related risk factors

ENDESA's activities are subject to extensive regulation, and regulatory changes could have an adverse impact on its business activities, results, financial position and cash flows

ENDESA's subsidiaries are subject to broad regulations on tariffs and on other aspects of their activities in Spain and Portugal, regulations which, in many ways, determine the manner in which ENDESA carries out its business and the revenues it receives from its products and services.

ENDESA is subject to a complex group of laws and other regulations applied by both public and private agencies, which include the Spanish Markets and Competition Commission (CNMC). The introduction of new legislation or standards, or the amendment of those already in effect could have a negative impact on ENDESA's business, results, financial situation and cash flows.

In the past, regulatory changes and the different interpretations thereof by the related authorities have had a substantially adverse effect on ENDESA's business activities, results, financial position and cash flows and the same could occur in the future. Furthermore, they could demand ENDESA make significant investments in order to comply with the new legal requirements. ENDESA cannot predict the effects the new regulatory measures will have on its results, its financial position or its cash flows and, therefore, these circumstances could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information regarding sectoral regulation may be found in Section 3. Regulatory Framework in this Consolidated Management Report, and also in Note 4 to the Consolidated Financial Statements for the year ended 31 December 2017.

In addition, the European Union has established an operating framework for the various Member States which include, inter alia, objectives related to emissions, efficiency and renewable energies.

The introduction of new requirements, or amendments to existing ones, could adversely affect ENDESA's business activities, results, financial positions and cash flows if it cannot adapt and manage correctly the environment arising from them.

Information on likely trends in the new economic and industrial model and ENDESA's industrial plan may be found in Section 6.1. Energy paradigm and 6.2. Strategic Pillars in this Consolidated Management Report.

ENDESA's activities are subject to wide-reaching environmental regulations and its inability to comply with current environmental regulations or requirements or any changes to the environmental regulations or requirements applicable could adversely affect its business activities, results, financial position and cash flows.

ENDESA is subject to environmental regulations which affect both the normal course of its operations, as well as the development of its projects, leading to increased risks and costs. This regulatory framework requires

licences, permits and other administrative authorisations be obtained in advance, as well as fulfilment of all the requirements provided for in such licences, permits and authorisations. As in any regulated company, ENDESA cannot guarantee that:

- The laws or regulation will not be amended or interpreted in such a way as to increase the expenses necessary to comply with such laws or as to affect ENDESA's operations, facilities or plants;
- Public opposition will not lead to delays or changes in the projects that are proposed; and
- The authorities will grant the environmental permits, licences and authorisations required to develop new projects.

In addition, ENDESA is exposed to environmental risks inherent to its business, including those risks relating to the management of the waste, spills and emissions of the electricity production facilities, particularly nuclear power plants. ENDESA may be held responsible for environmental damages, for harm to employees or third parties, or for other types of damages associated with its energy generation, supply and distribution facilities, as well as port terminal activities.

Although the plants are prepared to comply with the prevailing environmental requirements, ENDESA cannot guarantee that it will be able to comply with the requirements imposed or that it will be able to avoid fines, administrative or other sanctions, or any other penalties and expenses related to compliance matters, including those related to the management of waste, spills and emissions from the electricity production units. Failure to comply with this regulation may give rise to liabilities, as well as fines, damages, sanctions and expenses, including, where applicable, facility closures. Government authorities may also impose charges or taxes on the parties responsible in order to guarantee obligations are repaid. In the event ENDESA were accused of failing to comply with environmental regulations, its business activities, results, financial position and cash flows could be affected adversely.

In this connection, ENDESA has taken out the following insurance policies:

- An environmental liability insurance policy which covers, up to a maximum of Euros 100 million, claims arising from contamination.
- A third-party liability insurance policy which covers claims relating to damage to third parties or their property up to a maximum of Euros 200 million and an additional Euros 800 million for hydroelectric plants.
- In relation to risks arising from operating nuclear power plants, the storage and handling of low-level radioactive materials and the eventual dismantling of its nuclear power plants, an insurance policy up to Euros 700 million to cover any liabilities related to nuclear power plants up to the liability limit established by Spanish legislation.

The nuclear power plants are also insured against damage to their installations (including stocks of fuel) and machinery breakdowns, with maximum coverage of USD 1,500 million (approximately Euros 1,250 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May, on civil liability for nuclear damages or damages produced by radioactive materials, which raises operator liability to Euros 1,200 million and allows coverage of this liability to be ensured in several ways. The entry into force of this regulation is in turn subject to entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention) which, at the date on which this Consolidated Management Report was drawn up, was pending ratification by some European Union member states.

However, it is possible ENDESA may face third-party damage claims. If ENDESA were to be held liable for damages generated by its facilities for amounts greater than its insurance policy cover or for damages which exceed the scope of the insurance policy's cover, its business activities, financial position or operating results could be adversely affected.

ENDESA is subject to compliance with the legislation and regulations on emissions of pollutants and on the storage and treatments of waste from fuel from nuclear power plants. It is possible that the Company will be subject to even stricter environmental regulations in the future. In the past, the approval of new regulations

has required, and could require in the future, significant capital investment expenditures in order to comply with legal requirements. ENDESA cannot predict the increase in capital investments or the increase in operating costs or other expenses it may have to incur in order to comply with all environmental requirements and regulations. Nor can it predict if the aforementioned costs may be transferred to third parties. Thus, the costs associated with compliance with the regulations applicable could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information concerning ENDESA's environmental management systems may be found in Section 10. Environmental Protection in this Consolidated Management Report.

Past or future infringements of competition and antitrust laws could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is subject to competition and antitrust laws in the markets in which it operates. Infringements of the aforementioned laws and other applicable regulations, especially in Spain, ENDESA's main market, could give rise to legal actions against ENDESA.

ENDESA has been, is and could be the object of legal investigations and proceedings regarding competition matters. Investigations regarding the infringement of competition and antitrust laws usually last several years and may be subject to rules which prevent the disclosure of information. Furthermore, infringements of these regulations may give rise to fines and other types of sanctions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information on litigation and arbitration is provided in Note 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA's growth strategy has traditionally included, and continues to include, purchase transactions which are subject to various competition laws. These regulations may affect ENDESA's ability to carry out strategic transactions.

ENDESA's business is largely dependent on the constant supply of large amounts of fuel to generate electricity; on the supply of electricity and natural gas used for its own consumption and supply; and on the supply of other commodities, the prices of which are subject to market forces which may affect the price and the amount of energy sold by ENDESA.

ENDESA is exposed to market price and availability risks in relation to the purchase of the fuel (including gas and coal) used to generate electricity, for procuring gas and supply activities.

In this connection, fuel price fluctuations in international markets may affect the contribution margin. The prices of the offers of the various technologies are therefore established through the internationalisation, among others, of fuel and CO₂). Therefore, in the event of fluctuation in fuel prices and carbon dioxide (CO₂), generation technologies will attempt to reflect such fluctuations in their wholesale market prices. At the same time, the order of economic merit of each generation technology when establishing the market price, will depend on its relative costs, which include those of fuel and CO₂ emission rights, among others.

Similarly, the price of oil influences the price of electricity through the natural gas supply contracts, the majority of which are indexed to oil.

The Company is also exposed to the prices of CO₂ emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs), which in turn influences the cost of production at coal-fired and combined-cycle plants.

ENDESA has signed certain natural gas supply contracts which include binding "take or pay" clauses which compel it to either acquire the fuel it has agreed to contractually or to pay if it does not acquire such fuel. The terms of these contracts have been established based on certain assumptions regarding future electricity and gas demand. Any deviation from the assumptions used could give rise to an obligation to purchase more fuel than necessary or to sell excess fuel on the market at current prices. Over the last 3 years, ENDESA has managed its supply and demand, considerably expanding its international customer base in order to ensure its purchase commitments are balanced against the volume of its own consumption and customer sales. Furthermore, ENDESA has entered into electricity and natural gas contracts based on certain assumptions

regarding future market prices for electricity and natural gas. ENDESA sells more electricity than it generates and, therefore, it is obliged to acquire electricity on the spot market in order to meet its supply obligations.

Any deviation when the aforementioned supply contracts are signed could give rise to an obligation to purchase electricity or natural gas at prices which are higher than those included in the contracts. In the event there is a market price adjustment with respect to the estimates made, a deviation in ENDESA's obligations with regard to its fuel needs, or a regulatory change which affects prices as a whole and how they have been established, and if its risk management strategies are inadequate in the face of such changes, ENDESA's business activities, results, financial position and cash flows could be affected adversely.

Information on fuel stock purchase commitments is provided in Section 4.6. Contractual Obligations and Off-Balance Sheet Operations in this Consolidated Management Report and Note 12 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA's business could be adversely affected in the event it is unable to sustain its relationships with suppliers, customers and consumer and user rights organisations, or if the entities with which ENDESA maintains these relationships cease to exist.

The relationships ENDESA currently maintains with the main industry service suppliers and providers are essential for the development and growth of its business, and will continue to be so in the future. Furthermore, certain of these relationships are and will continue to be managed by ENEL, S.p.A.

ENDESA's dependence on these relationships could affect its ability to negotiate contracts with these parties under favourable conditions. Although ENDESA's supplier portfolio is sufficiently diverse and it does not have a concentration of suppliers, if any of these relationships is severed or terminated, ENDESA cannot guarantee the replacement of any significant service supplier or provider within an appropriate time frame. If ENDESA is unable to negotiate contracts with its suppliers under favourable terms, if such suppliers are unable to comply with their obligations or if their relationship with ENDESA is severed, and ENDESA is unable to find an appropriate replacement, its business activities, results, financial position and cash flows could be affected adversely.

In the electricity supply business, ENDESA maintains relationships with a large number of customers. Even if ENDESA were to lose individual customers it would not have a significant impact on its business as a whole, the inability to maintain stable relationships with key customers could adversely affect ENDESA's business activities, results, financial position and cash flows.

Furthermore, ENDESA cannot guarantee that it will maintain solid relationships and ongoing communication with consumers and users and with the associations which represent them and, therefore, any change in these relationships could entail negative publicity and a significant loss of customers, which could adversely affect ENDESA's business activities, results, financial position and cash flows.

Note 20.6 to the Consolidated Financial Statements for the year ended 31 December 2017 provides information on the concentration of customers and suppliers.

ENDESA's activities could be affected by rainfall patterns and climate and weather conditions.

ENDESA depends on the levels of precipitation in the geographical areas where its hydroelectric generation facilities are located. A year with low rainfall leads to a decline in hydroelectric output, in turn increasing the output of thermal power plants (with a greater cost) and, therefore, an increase in the price of electricity and costs of buying energy. In a wet year, the opposite effects occur.

Therefore, if there are droughts or other circumstances which adversely affect hydroelectric generation, ENDESA's business activities, results, financial position and cash flows could be adversely affected. Likewise, the Company actively manages its production mix when faced with changes in hydrological conditions. For example, in the event hydrological conditions are unfavourable, electricity generation will, to a large extent, come from other types of facilities and ENDESA's operating expenses arising from these activities will increase. ENDESA's inability to manage changes in hydrological conditions could adversely affect its business activities, results, financial position and cash flows.

Weather-related conditions and, in particular, seasons, have a significant impact on electricity demand. Electricity consumption levels reach their peak in summer and winter. The impact seasonal changes have on

demand is reflected mainly in residential customer categories (with consumption of less than 50 MWh/year) and small businesses (with consumption between 50 MWh/year and 2 GWh/year). Seasonal changes in demand are attributed to various weather-related factors such as the climate, the amount of natural light, and the use of light, heating and air conditioning. Since ENDESA has high fixed costs, changes in demand due to weather conditions can have a major effect on the business's profitability.

The impact of seasonal variations on industrial electricity demand (with consumption of over 2 GWh/year) is less pronounced than in domestic and commercial industries, mainly due to the fact that there are various types of industrial activities which, due to their unique nature, have differing seasonal peaks. Furthermore, the effect of climate-related factors is more varied in these industries. Accordingly, ENDESA must make certain projections and estimates regarding climate conditions when negotiating its contracts and a significant divergence in the precipitation levels and other weather conditions envisaged could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is also subject to the risk of fluctuations in global demand.

Likewise, adverse weather conditions could impact the regular supply of energy due to damages to the network, with the resulting interruption in services which could compel ENDESA to compensate its customers due to delays or disruptions in the supply of energy. The occurrence of any of the foregoing circumstances could adversely affect its business activities, results, financial position and cash flows.

ENDESA is exposed to risks associated with the construction of new electricity generation and supply facilities.

The construction of power generation and supply facilities can be time-consuming and highly complex. This means that investment needs to be planned well in advance of the estimated start-up date of the facility and, therefore, the Group may need to adapt its decisions to changes in the market conditions. This may entail significant additional costs not originally planned that may affect the return on these types of projects.

In connection with the development of such facilities, ENDESA generally has to obtain the related administrative authorisations and permits, acquire land purchase or lease agreements, sign equipment procurement and construction contracts, operation and maintenance agreements, fuel supply and transport agreements, off-take arrangements and obtain sufficient financing to meet its capital and debt requirements.

Factors that may affect ENDESA's ability to construct new facilities include:

- Delays in obtaining regulatory approvals, including environmental permits;
- Shortages or changes in the price of equipment, materials or labour;
- Opposition from local groups, political groups or other stakeholders;
- Adverse changes in the political environment and environmental regulations;
- Adverse weather conditions, natural catastrophes, accidents and other unforeseen events that could delay the completion of power plants or substations;
- Non-compliance by suppliers of the agreed contractual conditions; and
- Inability to obtain financing under conditions that are satisfactory to ENDESA.

Any of these factors may cause delays in completion or commencement of the Group's construction projects and may increase the cost of planned projects. In addition, if ENDESA is unable to complete these projects, any costs incurred in connection with such projects may not be recoverable.

If ENDESA faces problems related to the development and construction of new facilities, its business activities, results, financial position and cash flows may be adversely affected.

In addition, ENDESA makes investments to maintain and, where necessary, extend the technical life of its electricity power plants. The execution of these investments is dependent on market and regulatory conditions.

If the necessary conditions enabling the viability of the plants do not exist, ENDESA may have to cease production at the installation and, where appropriate, and begin the task of dismantling them. These closures would involve a reduction in installed capacity and output that support customer energy sales and, therefore, could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information on ENDESA's investment plan is provided in Section 6.3. Main Financial Indicators in this Consolidated Management Report.

7.2.2. Risks associated with the countries in which ENDESA operates.

ENDESA's business could be affected by adverse economic or political conditions in Spain, Portugal, the Eurozone and in international markets.

Adverse economic conditions could have a negative impact on energy demand and the ability of ENDESA's consumers to fulfil their payment obligations. In times of economic recession, as experienced by Spain and Portugal in recent years, electricity demand usually falls off, adversely affecting the Company's results.

The economic conditions in Spain and Portugal in recent years have adversely affected electricity demand and, therefore, ENDESA's operating results. The Company cannot predict how the economic cycle in Spain, Portugal and the Eurozone will evolve in the short term, nor can it predict whether economic conditions will worsen or deteriorate.

If the economic situation in Spain, Portugal or other Eurozone economies deteriorates, it could adversely affect energy consumption and, consequently, ENDESA's business activities, financial position, operating results and cash flows would be negatively affected.

In addition, the financial conditions in the international markets represent a challenge for ENDESA's economic situation due to the potential impact on its business of, on the one hand, the government debt level, declining growth rates and possible downgrading of government bond ratings at the international level – and, in particular, in Eurozone countries – and, on the other hand, the new monetary expansion measures expected in the credit market. Changes in any of these factors could condition ENDESA's access to capital markets and the conditions under which it obtains financing, consequently affecting its business activities, results, financial position and cash flows.

In addition to any economic problems which could arise at the international level, ENDESA faces a situation of uncertainty at political level, in Spain and internationally, which could adversely affect the Company's economic and financial position. Specifically, it is considered that the impact of Brexit and other international events, in addition to the situation in Venezuela is not material for ENDESA.

ENDESA cannot guarantee that the international or Eurozone economic situation will not deteriorate, nor that an event of a political nature will not have a significant impact on the markets, thus affecting its economic situation. All of these factors could adversely affect ENDESA's business activities, financial position, operating results and cash flows.

7.2.3. Risks associated with operations carried out by ENDESA.

ENDESA's activities may be affected by operating risks and other significant risks.

In the course of ENDESA's business activities, direct or indirect losses could arise from inadequate internal processes, technological failures, human error or certain external events, such as accidents at facilities, workplace conflicts and natural disasters. These risks and dangers could cause explosions, floods or other circumstances which could cause the total loss of the energy generation and distribution facilities; damages to or the deterioration or destruction of ENDESA's facilities, or even environmental damages; delays in electricity generation and complete disruption of the activity; or could cause personal damages or deaths. The occurrence of any of these circumstances could adversely affect its business activities, results, financial position and cash flows.

The loss of essential workers or ENDESA's inability to recruit, employ and train qualified staff could adversely affect ENDESA's business activities, results, financial position and cash flows.

In order for ENDESA to be able to continue to maintain its position in the industry, it must recruit, train and retain the staff necessary who can provide the experience required within the framework of ENDESA's intellectual capital needs. The success of ENDESA's business depends on the continuity of the services provided by Company management and by other key employees with demonstrated experience, reputation and influence in the electricity industry, thanks to establishing beneficial and long-lasting relationships in the market over the years. The qualified labour market is highly competitive and ENDESA may not be able to successfully hire additional qualified staff or to replace outgoing staff with sufficiently qualified or effective employees.

ENDESA's inability to retain or recruit essential staff could adversely affect its business activities, results, financial position and cash flows.

Information on attracting and retaining talent, training, leadership and development of employees may be found in Section 11. Human Resources in this Consolidated Management Report.

ENDESA's insurance cover and guarantees may not be adequate or may not cover all of the damages.

ENDESA's business is exposed to the risks inherent to the markets in which it operates. Despite the fact that ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business, including damages to the Company itself, general civil liability, environmental and nuclear power plant liability, it is possible that insurance cover may not be available on the market under commercially reasonable terms. Likewise, the amounts for which ENDESA is insured may not be sufficient to cover the incurred losses in their entirety.

In the event of a partial or total loss of ENDESA's facilities or other assets, or a disruption to its activities, the funds ENDESA receives from its insurance may not be sufficient to cover the complete repair or replacement of the assets or losses incurred. Furthermore, in the event of a total or partial loss of ENDESA's facilities or other assets, part of the equipment may not be easily replaced, given its high value or its specific nature, or may not be easily or immediately available.

Similarly, the cover of guarantees in relation to the aforementioned equipment or the limits to ENDESA's ability to replace the equipment could disrupt or hinder its operations or significantly delay the course of its ordinary operations. Consequently, all of the above could adversely affect ENDESA's business activities, results, financial position and cash flows.

Likewise, ENDESA's insurance contracts are subject to constant review by its insurers. It is therefore possible that ENDESA may be unable to maintain its insurance contracts under conditions similar to those currently in place in order to meet possible increases to premiums or to covers which become inaccessible. If ENDESA is unable to transfer a possible premium increase to its customers, these additional costs may adversely affect its business activities, results, financial position, and cash flows.

ENDESA manages its activities with information technology that uses the highest security and contingency standards according to the state of the art, such that it guarantees operating efficiencies, as well as the continuity of the businesses, systems and processes which contribute to attaining its corporate objectives.

The business aggregates with regard to technical complexity, volume, granularity, functionality and varying situations handled by ENDESA's systems make their uses essential and represent a strategic distinguishing element with respect to industry companies. Specifically, ENDESA's main computer systems handle the following business processes:

- Sales systems: marketing processes, demand forecasts, profitability, sales, customer service, claim management, hiring and the basic revenue cycle (validation of meter reading, invoicing, collection management and debt processing).
- Technical distribution systems: processes for managing the grid, meter-reading management, handling of new supplies, network planning, field work management, management of meter-reading equipment with advanced remote management and energy management capabilities.

- Generation systems, energy management and renewables: fuel management processes, meter-reading management, trading risk management, etc.
- Economic and financial systems: economic management, accounting, financial consolidation and balance sheet processes of the Company.

Additionally, ENDESA is currently undergoing a process of digital transformation, which involves increasing its exposure to potential cyber attacks that could jeopardise the security of its systems and customer data bases, affecting the Company's profits and undermine its customers' trust.

Management of ENDESA's business activity through these systems is key in order to perform its activity efficiently and achieve its corporate objectives. However, the existence of policies, processes, methodologies, tools and protocols based on international standards and duly audited, in addition to the development of a cyber security strategy supported by a management framework and aligned with international standards and government initiatives, does not mean that ENDESA is exempt from technical incidents that could have a negative impact on the technical continuity of its business operation, the quality of its contractual relationships with customers, or its results, financial position and cash flows.

7.2.4. Financial Risks associated with ENDESA's Business Lines.

Note 20 to the Consolidated Financial Statements for the year ended 31 December 2017 lists the risk management and control mechanisms.

ENDESA is exposed to interest rate risk.

Borrowings at floating interest rates are mainly tied to Euribor. Changes in interest rates in relation to financial debt not covered or that is adequately covered may be adversely affect ENDESA's business activities, results, financial position and cash flows

Information relating to interest rate risk is provided in Note 20.1 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA is exposed to foreign currency risk.

ENDESA is exposed to foreign currency risk, mainly in relation to the payments it must make in international markets to acquire energy-related commodities, especially natural gas and international coal, where the prices of these commodities are usually denominated in US dollars.

Therefore, this means that the fluctuations in the foreign exchange rate could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information relating to exchange rate risk is provided in Note 20.2 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA is exposed to credit risk.

In its commercial and financial activities, ENDESA is exposed to the risk that its counterparty may be unable to meet all or some of its obligations, both payment obligations arising from goods already delivered and services already rendered, as well as payment obligations related to expected cash flows, in accordance with the financial derivative contracts entered into, cash deposits or financial assets. In particular, ENDESA assumes the risk that the consumer may not be able to fulfil its payment obligations for the supply of energy, including all transmission and distribution costs.

ENDESA cannot guarantee that it will not incur losses as a result of the non-payment of commercial or financial receivables and, therefore, the failure of one or various significant counterparties to fulfil their obligations could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information relating to credit risk is provided in Note 20.5 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA's business depends on its ability to obtain the funds necessary to refinance its debt and finance its capital expenses.

ENDESA is confident that it will be able to generate funds internally (self-financing), access bank financing through long-term credit facilities, access short-term capital markets as a source of liquidity and access the long-term debt market in order to finance its organic growth programme and other capital requirements, including its commitments arising from the on-going maintenance of its current facilities. Furthermore, ENDESA occasionally needs to refinance its existing debt. This debt includes long-term credit facilities, obtained from both banks as well as companies of the Group headed by ENEL, and financial investments.

If ENDESA is unable to access capital under reasonable conditions, refinance its debt, settle its capital expenses and implement its strategy, the Company could be adversely affected. The capital and turmoil in the capital market, a possible reduction in ENDESA's creditworthiness or possible restrictions on financing conditions imposed on the credit facilities in the event financial ratios deteriorate, could increase the Company's finance costs or adversely affect its ability to access the capital markets.

A lack of financing could force ENDESA to dispose of or sell its assets to offset the liquidity shortfall in order to pay the amounts owed and this sale could occur under circumstances which prevent ENDESA from obtaining the best price for said assets. Therefore, if ENDESA is unable to access financing under acceptable conditions, ENDESA's business activities, results, financial position and cash flows could be adversely affected.

Information on ENDESA's finance function is provided in Section 4.1. Financial Management in this Consolidated Management Report.

On the other hand, the conditions in which ENDESA accesses the capital markets or other means of financing, whether within the Company or on the credit market, are highly dependent upon the credit rating of the ENEL Group, of which ENDESA is part. ENDESA's capacity to access the markets and financing could therefore be adversely affected, in part, by the credit and financial position of ENEL, to the extent that it could determine the availability of intercompany financing for ENDESA or the conditions under which the Company accesses the capital market.

In this connection, the deterioration of ENEL's credit rating and, consequently, that of ENDESA, could limit ENDESA's ability to access the capital markets or any other means of financing (or refinancing) from third parties or increase the cost of these transactions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

Information on ENDESA's ratings is provided in Section 4.3. Credit Rating Management in this Consolidated Management Report.

7.2.5. Tax risks.

Technical tax risk.

This is the possible risk that the tax authorities may demand more contributions from the taxpayer than expected in relation to tax returns or returns not presented, or in addition to the returns presented or unpaid tax, due to different interpretations of laws or regulations or new regulations that may be introduced retroactively, in connection with tax payable, late-interest penalties, fines or any other item entailing tax debt. This risk is associated both with compliance with current regulations and changes in their interpretation.

The information relating to the tax periods open for review is detailed in Note 3n of the Notes to the Consolidated Financial Statements for the year ended 31 December 2017.

Any change to the tax legislation applicable or to its interpretation could affect ENDESA's tax obligations, entailing fines, extra costs or increases in its obligations which could adversely affect its business activities, outlook, operational results, financial position and cash flows.

Reputational risk arising from tax matters.

The derived risk that the company's main audience's perception, assessment or opinion of it be seriously affected due to the company's own actions, events that are wrongly or unfairly attributed to it, or due to events of similar nature that affect the entire sector and are projected on the company in a more pointed or damaging fashion.

ENDESA could be held liable for income tax and value added tax (VAT) charges corresponding to the tax group of which it forms part or has formed part.

Since 2010, ENDESA has filed consolidated tax returns for income tax purposes, as part of consolidated tax group no. 572/10, the parent of which is ENEL, S.p.A. and ENEL Iberia, S.L.U. The representative in Spain. Likewise, since January 2010, ENDESA has formed part of the Spanish consolidated VAT group no. 45/10, the parent of which is also ENEL Iberia, S.L.U. Until 2009, ENDESA filed consolidated tax returns as the Parent under group no. 42/1998 for income tax and under group no. 145/08 for VAT.

Also, ENEL Green Power España, S.L.U. (EGPE), a wholly-owned ENDESA subsidiary, has been fully consolidated between 2010 and 2016 as part of the Group number 574/10 of which ENEL Green Power España, S.L.U. (EGPE) was the Parent. From 1 January 2017, ENEL Green Power España, S.L.U. (EGPE) has paid taxes as part of tax group number 572/10 of which ENEL, S.p.A. is the Parent and ENEL Iberia, S.L.U. is the representative in Spain.

In accordance with the regime for filing consolidated tax returns for purposes of income tax and VAT for company groups, all of the Group companies which file consolidated tax returns are jointly responsible for paying the Group's tax charge. This includes certain sanctions arising from failure to comply with specific obligations imposed under the VAT regime for company groups.

As a result of this, ENDESA is jointly responsible for paying the tax charge of the other members of the consolidated tax Groups to which it belongs or has belonged for all tax periods still open for review. ENEL Green Power España, S.L.U. (EGPE) is also responsible for this with respect to the other members of the tax consolidation Group of which it has formed part.

Even though ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), has the right to recourse against the other members of the corresponding consolidated tax group, it could be held jointly liable if any outstanding tax charge were to arise which had not been duly settled by another member of the consolidated tax Groups of which ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), forms or has formed part. Any material tax liability could adversely affect ENDESA's business activities, results, financial position and cash flows.

7.2.6. Other risks.

The ENEL Group controls the majority of ENDESA's share capital and voting rights and the interests of the ENEL Group could conflict with those of ENDESA.

At 31 December 2017, the ENEL Group, through ENEL Iberia, S.L.U., held 70,101% of ENDESA, S.A.'s share capital and voting rights, enabling it to appoint the majority of ENDESA, S.A.'s Board members and, therefore, to control management of the business and its management policies.

In addition, certain of the relationships that ENDESA currently maintains with its principal international suppliers and providers in the sector are, and will continue to be, managed by ENEL, S.p.A.

The ENEL Group's interests may differ from the interests of ENDESA or those of its shareholders. Furthermore, both the ENEL Group and ENDESA compete in the European electricity market. It not possible to ensure that the interests of the ENEL Group will coincide with the interests of ENDESA's other shareholders or that the ENEL Group will act in support of ENDESA's interests.

Information on balances and transactions with related parties is provided in Note 35 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA is involved in court and arbitration proceedings.

ENDESA is party to various ongoing legal proceedings related to its business activities, including tax, regulatory and antitrust disputes. It is also subject to ongoing or possible tax audits. In general, ENDESA is exposed to third-party claims from all jurisdictions (criminal, civil, commercial, labour and economic-administrative) and in national and international arbitration proceedings.

Although ENDESA considers that the appropriate provisions have been made for any legal contingencies, it has not made provisions for all amounts claimed in each and every one of the proceedings. In particular, it has not made provisions in cases in which it is impossible to quantify the possible negative outcome nor in cases in which the Company considers such negative outcome unlikely. No guarantee can be made that ENDESA has allocated adequate provisions for contingencies, that it will be successful in the proceedings in which it expects a positive outcome, or that an unfavourable decision will not adversely affect ENDESA's business activities, results, financial position and cash flows. Furthermore, the Company cannot ensure that it will not be the object of new legal proceedings in the future which, if the outcome were unfavourable, would not have an adverse effect on its business activities, operating results, financial position or cash flows.

Information on litigation and arbitration is provided in Note 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017.

ENDESA is exposed to image and reputation impairment risk.

ENDESA is exposed to the opinion and perception projected to different interest groups. This perception could deteriorate as a result of events produced by the Company or third parties over which it has little or no control. Should this occur, this could lead to economic detriment for the Company due, among other factors, to increased requirements on the part of regulators, higher borrowing costs or increased efforts to attract customers.

Although ENDESA actively work to identify and monitor potential reputational events and interest groups affected, and transparency forms part of its communications policy, there is no guarantee that it will not have its image or reputation impaired which, since the outcome would be unfavourable, will have an adverse effect on its business, operating results, financial situation or cash flows.

ENDESA is exposed to sustainability risks.

Sustainability issues are now much more relevant, and in the years ahead they could increasingly affect some of the risks faced by ENDESA. Among these emerging global tendencies, the following factors have been identified as those which could affect ENDESA most: loss of biodiversity, terrorism, hydric stress, cyber security, inequality and social instability, involuntary large-scale immigration, extreme climate events and environmental disasters and climate change.

Information concerning ENDESA's commitment to sustainable development may be found in Section 8. Sustainability Policy in this Consolidated Management Report.

8. Sustainability policy.

8.1. ENDESA's sustainability commitment.

ENDESA believes that sustainability is responsible growth - in other words, making social and environmental opportunities part of its management model and strategy, helping it achieve its business objectives and maximising long-term value creation for the company and the local communities it serves.

This unswerving commitment to sustainability was boosted following approval of the Sustainability Policy on 21 December 2015 by the Board of Directors of ENDESA, S.A., which aims to determine and formalise the Company's commitment to sustainable development, laying this down in the mission, vision and values that make up ENDESA's principles of conduct.

ENDESA is an energy utility, which has electricity as its core business, a growing presence in the gas industry, and also supplies other related services. Its objective is to supply customers with quality service responsibly and efficiently, while providing a return to shareholders, promoting a culture of ethics and compliance, fostering employees' professional development, assisting with the development of the social environments where it operates and using the natural resources necessary for its activities in a sustainable manner, from the approach of creating value shared with all stakeholders.

Meeting ENDESA's economic, social and environmental responsibilities in a balanced way, on the basis of sustainability, is essential if it is to maintain its leading position and strengthen it in the future.

To this effect, the new commitments for the future, constitute the basis and guidelines for ENDESA's conduct in this area, and compliance with them is expressly supported by the Company's management, concerns employees, contractors and suppliers and is evaluated by third parties:

- These commitments are fully integrated in day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions which are included in successive sustainability plans.
- ENDESA has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments.
- The Company's focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.
- ENDESA is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholder groups.

ENDESA's new commitments for the future are:

- **Customers:** commitment to digital quality, commercial excellence and efficient energy consumption.
- **Shareholders and investors:** commitment to creating value and profitability.
- **People:** commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA.
- **Conduct:** commitment to good governance, transparency and ethical behaviour.
- **Environment:** commitment to reducing the environmental footprint and protecting the environment.
- **Innovation:** commitment to innovation in technology and the scope of services.
- **Company:** commitment to the socio-economic development of the communities in which the Company operates.
- **Institutions:** commitment to developing public-private partnerships to promote sustainable development.
- **Employees:** commitment of those who work with us to be actively involved in sustainability.

To this effect, the future commitments set out in the policy constitute the basis and guidelines for ENDESA's management of its business, and in this regard compliance is expressly supported by the Company's management, concerns employees, contractors and suppliers, and is evaluated by third parties. Through its Audit and Compliance Committee, the ENDESA, S.A. Board supervises proper implementation of the principles of the sustainability policy throughout the company's entire value-creation chain.

The policy is implemented by means of several Sustainability Plans at ENDESA.

8.2. Compliance with ENDESA's 2017-2019 Sustainability Plan

To succeed in integrating sustainability into the management of the business and into the decision-making processes, there must be maximum alignment between the business strategy and the sustainability strategy, so that both are aimed at the attainment of the same objective and which are fed back to achieve it, thereby generating economic value for the Company in the short- and long-term.

Accordingly, ENDESA's 2017-2019 Sustainability Plan (PES) defined four priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan itself: decarbonisation of the energy mix; digitalisation of assets, customers and people; customer guidance and operating efficiency and innovation.

Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management throughout the entire value creation chain, five transversal strategic pillars were identified: integrity, human capital, occupational health and safety, environmental sustainability and responsible supply chain.

With more than 100 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2017-2019 Sustainability Plan, and has achieved overall compliance of more than 93%.

As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA discloses compliance with its objectives and the courses of action in the 2017-2019 Sustainability Plan (PES) in the Statement of Non-financial Information (see Appendix III in this Consolidated Management Report) and in the 2017 Sustainability Report, which will be available for consultation on the website, www.endesa.com.

8.3. ENDESA's Contribution to the United Nations Sustainable Development Goals (SDGs).

In September 2015 the General Assembly of the United Nations adopted the 2030 Agenda for Sustainable Development, consisting of 17 Sustainable Development Goals (SDGs) as an action plan for people, the planet and prosperity, and also in a bid to boost world peace, access to justice and to help fight climate change, and in this regard businesses were called upon to provide proactive assistance.

ENDESA is firmly committed to the new United Nations Agenda for Sustainable Development, and acknowledges the historic opportunity of the new Sustainable Development Goals (SDGs) and the implication of the private sector to meet the main challenges faced by society.

The ENEL Group has publicly undertaken to make a specific contribution with 4 of the 17 Sustainable Development Goals:

- SDG 4 (Education): Assistance with the education of 800,000 people by the year 2020, in a range of educational projects.
- SDG7 (Affordable and clean energy): Fostering access to sustainable, affordable modern energy, assisting 3 million people by the year 2020.
- SDG 8 (Economic development): Fostering employment and sustainable, inclusive and sustained economic development for 3 million people by 2020.
- SDG 13 (Climate action): Adopting initiatives to combat climate change, in a bid to attain carbon neutrality by the year 2050.

ENDESA, contributes to the ENEL Group's public commitments through different projects and in 2016 it defined a road map to specifically contribute to reaching the following objectives:

- SDG 7 (Affordable and clean energy): No vulnerable customers without access to electricity, taking action in 3 areas: signature of cooperation agreements with public authorities, training and awareness campaigns on the responsible use of energy and social innovation for the development of new solutions.
- SDG 9 (Industry, innovation and infrastructure): Investing Euros 1.4 million up to 2020 promote digital transformation and develop energy solutions.

- SDG 13 (Climate action): Decarbonisation of the energy mix by 2050, setting intermediate targets to reduce absolute emissions of carbon dioxide (CO₂) by 47% 2020, 61% in 2030, 80% in 2040 and 100% in 2050 with respect to 2005.

However, although these Sustainable Development Goals (SDGs) are the priorities for ENEL and ENDESA, and therefore the emphasis will be placed on them in the years ahead, they will also take decisive action on the rest of the 17 Sustainable Development Goals (SDGs) through the Sustainability Plan.

9. Research, Development and Innovation Activities (R&D+i).

9.1. Context and Objectives of the Research, Development and Innovation Activities (R&D+i).

The energy industry is in the midst of important changes which will intensify in the future due to the growing environmental awareness of governments and customers. ENDESA is aware that the objectives for reducing emissions and increasing efficiency are necessary, requiring an additional effort on its part in order to achieve them.

According to the European Commission, in order to reach the targets set by the European Council in March 2007 regarding the 20-20-20 goal for 2020, electrification of European demand must increase to 22% by 2020 and in order to reach the targets set in the "2050 Energy Roadmap", aimed at reducing greenhouse gases by 90% in 2050, it must be more than 39% by the year 2050.

The foregoing will facilitate the transition from the current centralised one-directional energy model, where customers consume energy generated at large plants and distributed through large one-directional infrastructures, towards a more decentralised multi-directional model where customers can generate their own energy and exchange it with other players through multi-directional infrastructures.

In this context, the goal of ENDESA's research, development and innovation (R&D+i) activities is to create a new, more sustainable energy model based on efficient electrification of energy demand thanks to the development, testing and application of new technologies and new business models.

ENDESA's research, development and innovation (R&D+i) activities, are developed in coordination with the rest of the ENEL Group, with joint research activities being undertaken in the areas of shared interest and in the markets in which both operate.

9.2. Investment in research, development and innovation activities (R&D+i).

Gross direct investment in Research, Development and Innovation (R+D+i) in 2017 amounted to Euros 24 million, distributed as follows:

Millions of Euros			
	Gross direct investment in R+D+i		
	2017	2016	
Generation and supply	19	12	
Distribution	5	4	
TOTAL	24	16	
Gross direct investment in R&D+i / EBITDA (%) ⁽¹⁾	0.68	0.47	
Gross direct investment in R&D+i / EBIT (%) ⁽²⁾	1.18	0.81	

(1) EBITDA = Income - Procurements and Services + Work carried out by the Group for its assets - Personnel Expenses - Other Fixed Operating Expenses.

(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

9.3. Main areas of activity.

ENDESA's research, development and innovation (R&D+i) activities are based on a commitment to sustainability, and therefore technology projects are developed aimed at creating value, fostering a culture of innovation and building competitive advantages in the area of sustainability.

ENDESA's develops innovation projects across all its business lines. The following details the areas of activity, their future guidelines, and certain of the most relevant projects currently under way.

Electricity generation.

Guidelines: reduce pollutants, boost digitalisation at plants, increase efficiency and improve flexibility of conventional plants in order to optimise operation and reduce their environmental impact.

Areas of activity:

- Digitalisation of generating plants:
 - “IOT Besós”: Demo project to implement new digital technologies at the Besós combined-cycle plant.
 - “Big Data”: Development of a platform and a predictive failure detection system based on big data technology and artificial intelligence for the main components of generating plants.
 - “Lifo”: measurement of temperature in very hot boiler components using fibre optics as a direct application sensor.
 - “Acombo”: development of software for advanced calculations of the integrity of dams at hydro power plants. Project co-financed by Spain’s “I+D Retos Colaboración” programme.
- Reduction of emissions of polluting gases and environmental protection:
 - “Matching”: a project carried out alongside a number of other companies and research and innovation centres, co-financed by the EU’s Horizon 2020 programme. The main objective is to reduce water consumption in the energy sector through the use of new technology. It also involves the validation of these technologies in three pilot facilities installed at the As Pontes thermal power plant.
 - “Gyll”: pilot project for the recovery of leachate water using a technology based on vibrating membranes.
 - “Ashreact”: a project aimed at recovering ash from the carbon combustion process at thermal power plants, through the use of an alkaline pre-activation process, to obtain substitutes for Portland cement products.
 - “Lessox”: study of new operational strategies to reduce specific emissions of nitrogen oxide (NO_x) and sulphur oxide (SO_x) in variable-load coal-fired thermal groups.
 - “Innovaalga”: upgrading carbon dioxide (CO₂) from combustion gases at the Litoral thermal power plant (Almería), and the use of microalgae and recovery of the biomass generated to obtain high-value proteins and sustainable fertilisers.
 - “CaO₂” project: optimisation of the process of capturing carbon dioxide (CO₂) using carbonation-calcination cycles with experimentation at the La Pereda 1.7 MW pilot plant. Project co-financed by the European R&D RFCS programme.
 - “Orpao”: improvements to operation of desulphurisation plants by optimising the intermediate processes to reduce operating costs, improve the quality of gypsum and reduce liquid effluents, thereby improving quality and the environment.
 - “Canem”: reduction of nitrogen oxide (NO_x) emissions and particulate matter emissions from fuel oil boilers through the installation of a water in fuel emulsifier system.
- Increase the efficiency and flexibility of the power plants:
 - “Coalrel”: study of strategies to boost the flexibility of fuels at coal-fired thermal units, reducing specific emissions.

- “Coal stockpiling”: rollout of a project to avoid energy loss at coal facilities as a consequence of natural oxidation and spontaneous combustion processes, or coal particles being blown away by the wind.
- “Conava”: implementation adaptive expert predictive control systems to optimise combustion and control steam heat temperature in different generation plants.
- “Colifo”: system to monitor the remaining life of the principal components of the boiler, with the aim of improving the operation of coal-fired thermal units.
- “Protec”: development of new claddings to protect boiler pipes against corrosion at high temperatures and also against erosion. Project co-financed by Spain's "I+D Retos Colaboración" programme.
- Energy storage:
 - “El Hierro”: assessment of the installation of an energy storage system to boost the quality of electricity supply on the El Hierro island grid.
 - “Thesis”: study of the integration of new thermal storage technologies in solid materials to recover residual heat in electricity generation plants.

Distribution network.

Guidelines: strengthen security of supply, improve service quality and respond to future customer demands through the development of smart grids, telemanagement and grid automation.

Areas of activity:

- Digitalisation of distribution grids:
 - Remote management project: roll out of an automatic remote electricity supply control and management system for domestic customers (less than 15 kW).
- Smart grid/Smart city projects: these ensure that the grids are able to offer a rapid response to users' needs.
 - ENDESA is developing its "Smart Grid" concepts on its "SmartCity" programmes, which have produced a number of projects. It has now been eight years since the "SmartCity" project was introduced in Málaga. In 2017, “Smartcity Málaga Living Lab” was certified on the European network of living labs, “ENoLL”.
 - Monitoring and advanced control of medium/low voltage distribution networks (known as “MONICA”): The idea is to move forward from simple data capture to the management and use of information that helps decision-making and the use of smart electricity grids to optimise network performance. In 2017, ENDESA commissioned the start of communications of a sensor multitude service at 56 medium/low voltage transformation centres in “SmartCity Málaga”, enabling the reception of information on the medium/low voltage grid in the distributor's centralised systems.
 - “Dareed”: a project to assess the contribution of the general public to local energy management was completed successfully in 2017 and tested in Seville.
 - “Resilience to cope with Climate Change in Urban Areas (Resccue)” project: this project focuses on assessing the impacts of climate change on the functioning of essential services in cities such as water or energy, and on providing models and practical and innovative tools to improve the resilience of urban areas to current or future climate scenarios.
 - “La Graciosa”: this project aims to establish the strategies and systems necessary to optimise energy flows in order to maximise the penetration of renewable energies on La Graciosa island.

- “Smartnet”: to improve the efficiency and stability of the electricity grid, making use of the flexibility offered by the new role played by consumers, now also producers of energy using collaborative models.
- Network innovation projects
 - “Growsmarter”: ENDESA is involved in this project as part of the European Union's Horizon 2020 Programme, and provided several solutions for the Barcelona demo, mainly in the areas of integration of infrastructure and sustainable urban mobility.
 - “Flexiciency”: large-scale demonstration of new services for all agents in the European electricity market based on the access to almost-real-time data from meters.
 - Project for the Interoperability of Substation Automation Units, “IdEAS”: the objective of this project is to develop and demonstrate a comprehensive fully interoperable network-integrated digital substation system incorporating the IEC 61850 protocol in its integrated protection and control system.
 - Standardisation-Security-Synchronisation Connected Substation project, “3S-CS”: the project sets out to develop an integral system to control electricity substations on the basis of IEC61850, with wireless and “IoT” capacity.

Efficiency in end usage of energy.

Guidelines: test the latest technologies in the field, define performance, identify areas of improvement and define operating processes.

Areas of activity:

- Connected@home: a demonstrational project in 11 homes, located in Barcelona, Madrid, Málaga and Seville, which involves the roll out of distribution technologies such as photovoltaic generation, energy storage and control and sensor devices. The objective is to design the smart house of the future in which everything is connected to the cloud where a series of algorithms is executed to improve energy efficiency and reduce consumption.
- Open Care: development of a low cost device to manage and monitor the gas boilers of residential customers in real time.
- Energy Management System (EMS): a platform providing different control, monitoring and energy assessment functions for customers, mainly multipoint.

Electric vehicles.

Guidelines: ENDESA is still firmly committed to developing e-mobility technologies in the broadest sense, and plays an active role in this field in order to position itself as a leader in the e-mobility industry and to develop and test on a real scale recharge systems, which allow the energy stored to be used and are large scale examples aimed at promoting e-mobility in real environments.

Areas of activity:

- Rapid charging:
 - “Prototype For Alternative Operation Of Mobility Assets (Paloma)”: integration of a new rapid charging system for electrically-powered buses and analysis of the impact of these infrastructures on the electricity distribution network in the city of Málaga.
 - “Ultrafast”: an ultra-rapid charger (400 kW) service available for all heavy electric vehicles in Barcelona; testing the technology and operating systems associated with the first fleet of buses. The initiative forms part of the H2020 ZeUS “Zero Emission Urban System” project, developed as part of a European consortium to demonstrate the economic, environmental and social viability of electric urban buses.

- “Corredores Ibéricos de Carga Rápida (Cirve)”: European project to deploy a network with 40 rapid-charge stations in urban and peri-urban areas, and to encourage this kind of infrastructure in Spain.
- “ecaR”: a project in Majorca to install 6 fast-charge stations with energy certified as 100% renewable.
- Smartcharging: development of a platform that manages multiple electric vehicle chargers.

Occupational safety.

Developing and testing technologies which contribute to the objective of reducing the accident rate:

- Implementation of a personal voltage detector device which complements the third golden rule "Test for Absence of Voltage" for those workers operating directly on the medium voltage network.
- Extension throughout the territory of the "APP5RO" project to verify compliance with the five golden rules for working with electricity using an app on the workers' company telephones.
- Analysis and monitoring of tasks in businesses operated by ENDESA, conducting assessments of possible improvements that could be made to processes.
- Inspection plan to analyse and monitor hazardous tasks in ENDESA's main lines of business. 74,597 inspections were carried out among the various lines of business in 2017.
- Extra Checking On Site “ECoS” programme, whereby an expert team trained by co-workers at different companies visit production centres to inspect specific tasks, drawing up comparisons and spreading the good practices observed to the rest of the organisation. Throughout 2017, 15 Extra Checking On Site “ECoS” have been made.

9.4. Innovation Model.

ENDESA has an open innovation model for the purpose of finding quality ideas for the development of innovative solutions to transform the current energy model. Open innovation is a new model used by companies to relate to external players (universities, startups, research centres, other companies in the same or a different sector, etc.) to promote collaboration and the sharing of ideas.

ENDESA's research, development and innovation (R&D+i) activities are carried out in close collaboration and cooperation with the rest of the ENEL Group, taking advantage both of the Group's research centres and the best research centres, universities, suppliers and emerging national and international companies.

The following is a summary of ENDESA's innovation model:

- **Identification of technological challenges:** in close collaboration with the businesses and after a trend analysis.
- **Generation of ideas:** in order to provide solutions to challenges. On two levels:
 - Internal ideas:
 - (i) ENEL Innovation World Cup: an initiative aimed at all employees to propose and develop new disruptive business models, providing the opportunity for participants to become involved.
 - (ii) "90 minutes of innovation": an internal initiative aimed at introducing employees to new technologies through sessions with an innovation focus.
 - (iii) My Best Failure: a digital platform that allows employees to share their “constructive failures” as a way of learning, helping to create a culture that is not frightened of making mistakes, fostering experimentation and the ability to take on risk within the organisation.

- (iv) Open Innovability: an ENEL Group platform for launching innovation and sustainability challenges, for both employees and the global innovation community.
- External ideas: With channels open to:
 - (i) Entrepreneurs:
 - ENEL Innovation Hub Spain: opened in Madrid in coordination with ENEL Innovation Holding and responsible for developing the relationship with entrepreneurship ecosystems, not only in Spain and Portugal, but also with other key European ecosystems. Its tasks include the prospection, monitoring and development of European startups that may be of interest for the Group for meeting the objectives of its business lines.
 - (ii) Associations and working groups: collaboration with various technology platforms and working groups promoted by various administrations.
 - (iii) Suppliers: ENDESA works actively with its suppliers to incorporate and develop new technological solutions.
 - (iv) Communities of experts: through innovation challenges launched on the ENDESA Energy Challenges platform, such as Blockchain Lab.
 - (v) Other industries: ENDESA participates in innovation forums with other industries.
- **Launch of projects:** after they have been assessed by ENDESA's experts (according to a common methodology based on the initiative's value creation), if the evaluation is positive the ideas are converted into projects which are then embarked on a structured management and monitoring process.
- **Capturing value:** once the projects have been successfully completed, they move on to production in order to create value for ENDESA. Furthermore, ENDESA follows a prudent policy regarding the protection of intellectual property.

9.5. Patents and licences.

ENDESA owns various patents registered in Spain and/or the European Union and/or in other non-European countries. If appropriate, certain patents are transferred to ENEL Group companies with a licence for their use and, occasionally, they are sub-licensed to third parties.

At 31 December 2017, ENDESA had 23 patents in Spain.

10. Environmental Protection.

10.1. ENDESA's environmental policy.

Sustainable development is one of the main pillars of ENDESA's strategy, and environmental protection one of the Company's most important commitments. This commitment clearly distinguishes ENDESA from other companies, as it constitutes a basic ethical principle expressly stated in its corporate values.

Through this commitment, ENDESA undertakes to minimise the environmental impact of its industrial activity, addressing issues related to the battle against climate change, proper waste management, and controlling atmospheric emissions, spillages and soil pollution, and other potentially harmful impacts.

Environmental management focuses on the sustainable use of natural resources and energy, and sets out to preserve biodiversity and ecosystems in which it operates.

Evaluation of the environmental risks inherent to the Company's activities and environmental certifications obtained from third-party agents help ensure excellence in the company's environmental management, which is fully integrated and aligned with its corporate strategy.

ENDESA has therefore been defining its environmental policy with the initial aim of creating a business culture based on environmental excellence, and intends to achieve this through its environmental management systems and plans.

10.2. Environmental investment and expenses.

ENDESA's gross environmental investment and expenses in 2017 and 2016 were as follows:

Millions of Euros			
	Annual gross environmental investment		
	2017	2016	% Var.
Property, plant & equipment			
Generation and supply	92	93	(1.1)
Distribution	18	15	20.0
Structure and other ⁽¹⁾	-	-	N/A
TOTAL	110	108	1.9

(1) Structure and services.

Millions of Euros			
	Annual cumulative gross environmental investment		
	2017	2016	% Var.
Property, plant & equipment			
Generation and supply	1,290	1,198	7.7
Distribution	345	327	5.5
Structure and other ⁽¹⁾	-	-	N/A
TOTAL	1,635	1,525	7.2

(1) Structure and services.

Millions of Euros			
	Annual environmental expenses		
	2017	2016	% Var.
Annual expenses			
Generation and supply	69	59	16.9
Distribution	31	17	82.4
Structure and other ⁽¹⁾	-	4	(100.0)
TOTAL	100	80	25.0

(1) Structure and services.

(2) Of total environmental expenses, Euro 15 million in 2017 and Euro 25 million in 2016 were allocated to the depreciation and amortisation of investments.

10.3. ENDESA's Environmental Management Systems.

ENDESA's environmental management systems are widely implemented throughout all its business lines.

The businesses are monitored at an environmental level by environmental management systems and indicators through which they are implemented. The indicators include the facilities' environmental impact (atmospheric emissions, water consumption, conventional pollutants in effluents, waste, etc.) and enable compliance with all existing legal obligations regarding environmental matters in relation to the business operations to be verified, as well as alignment with the path laid out by ENDESA to evaluate the degree to which the strategic objectives and goals defined.

Advanced environmental management.

ENDESA made further progress in the development of its environmental management in 2017, both in terms of certification, integrated environmental permits and environmental impact studies; measures were also implemented to improve the collection process and quality of the information submitted by the different areas.

At 31 December 2017, 100% of the installed power capacity, port terminals and all distribution business were certified to the ISO 14001 standard. With regard to office buildings, the Company has been awarded Energy Efficiency System (ISO 50001) and Environmental Management System (ISO 14001) at 15 of its offices in Spain and 5 buildings hold certificates for Indoor Air Quality (UNE 171330-3). It has also received certification under ISO 14001 for the customised management of the gas and electricity supply activity.

The certified environmental management system is the foundation upon which all management systems are integrated, depending on the business and the type of facilities, in an effort to complete and take advantage of the synergies these systems provide with respect to comprehensive management and additional reference to the International Standardisation Organisation (ISO) and/or the "UNE" Spanish standards. In this connection, it is worth pointing out the EMAS (Eco-Management and Audit Scheme) rules for thermal power plants and port terminals, the quality systems (ISO 9001) for thermal plants, renewable generation plants and laboratories, the energy efficiency management systems (ISO 50001) and the interior environmental quality certification (UNE 171330-3) for office buildings.

Managing environmental risks and liabilities.

To comply with the requirements of the Spanish Environmental Responsibility Law within the time frame established under Ministerial Order APM/1040/2017 of 23 October 2017, ENDESA has developed the MIRAT Project, which aims to establish the compulsory financial guarantee required by this law for conventional thermal and combined cycle (CCGT) power plants with a thermal capacity of over 50 MW, through an environmental risk analysis.

Pursuant to the time periods established in Ministerial Order, the compulsory financial guarantee for those power stations which require it, will be set after looking at the results of the environmental risk analysis.

The methodology used for environmental risk analysis has been developed at sector level and has the approval of the Ministry of Agriculture and Fishing, Food and the Environment.

As a result of its commitment to protecting the environment, ENDESA feels obliged to eliminate environmental liabilities, and, therefore, each facility identifies these liabilities and addresses them within the framework of their environmental management programmes, which may be reflected in their elimination, disposal or reuse.

Environmental footprint.

ENDESA calculates its environmental footprint using a methodology based on the most relevant international references, including the guidelines developed by the European Union to calculate the environmental footprint of its organisations and products.

Atmospheric emissions.

ENDESA closely monitors all of its emissions to verify their characteristics and the volumes emitted. The Company meets the parameters required by the regulations applicable, implements technology to minimise emissions, and applies corrective measures to the impacts generated.

Between 2008 and 2015, when the National Emissions Reduction Plan was carried out for major combustion facilities, the Company worked hard at its facilities to reduce atmospheric emissions of the main conventional pollutants (sulphur dioxide (SO₂), nitrogen dioxide (NO_x) and particles). Up to 2015 this brought about a reduction of 87% in emissions of SO₂, 62% in NO_x and 83% in particles compared to the base year 2006.

The transposition of EU Directive 2010/75/EU on industrial emissions into Spanish law through Law 5/2013 of 11 June, and Royal Decree 815/2013 of 18 October, introduced new and stricter environmental restrictions in the area of pollutant emissions. Specifically, the existing facilities must comply with new requirements and comply with the emission limit values on the expiration date of each of the transition mechanisms.

All mainland coal-fired plants are on the National Transitory Plan (NTP), which establishes maximum annual emission thresholds for a gradual reduction of emissions between 2016 and mid-2020. The progressive reduction of emissions at ENDESA's facilities adhering to the scheme will be more than 50% in terms of sulphur dioxide (SO₂) and nitrogen oxide (NO_x), and around 40% of particles between 2016 and 2020.

This mechanism, the National Transitory Plan, possibly entails more stringent requirements and a greater commitment to reduce the current emissions by ENDESA's major thermal power plants.

With regard to the new mechanisms established by regulations for industrial emissions, island facilities affected by Directive 2010/75/EU of 24 November 2010 form part of the "small isolated system" mechanism, through which the deadline for compliance with the emission limits has been extended to allow time to make the investments for compliance after 2020.

In 2017 the Best Reference (BREF) document for large combustion plants was approved ("Implementing Decision (EU) 2017/1442 of the Commission of 31 July 2017, establishing the conclusions on the best available techniques (BAT) pursuant to Directive 2010/75/EU of the European Parliament and Council for large combustion plants"), and involves the review and adaptation of the integrated environmental authorisations in all thermal plants in a maximum of four years in order to deploy and adopt the best environmental management and performance techniques available.

Hydro resources.

ENDESA has identified water as a critical resource that will be affected by climate change and the integrated management of water is one of its major concerns. The main tasks in this area entail improvements to consumption efficiency, water quality by controlling dumping and wastewater and reservoir management, with an assessment of ecological potential for birdlife, control of invasive species and preventing dry-up in regulated rivers.

ENDESA has procedures to control and reduce water dumping and to boost quality, mainly by means of wastewater treatment facilities, and conducts regular analyses to pinpoint instances of hydric stress at its facilities.

Emphasise that 99% of the water collected by ENDESA for use at its plants is returned to the environment to be reused.

Waste.

ENDESA has environmental management systems in place that include specific operating procedures for the management of waste produced by all its activities, which are continuously reviewed to detect and drive improvements. Waste-reduction measures focus on reusing oil, removing transformers contaminated with PCB (polychlorophenols), gradually removing components containing asbestos, recovering inert waste, and treating cleaning solvents for reuse.

In 2017, a significant portion of the waste recovered by ENDESA derived from its external facilities, representing 88% of its total non-hazardous waste and 42% of its total hazardous waste in Spain and Portugal.

ENDESA recovers ash and slag waste generated by its coal-fired plants, located mainly in Spain and Portugal, as a raw material for other industrial uses.

Ash from coal-fired power stations, which is likely to be a part of this, has received certification under Standard UNE-EN 450 1/2 to be used as an additive in the production of concrete. In this way, its quality is certified and its recovery value is maximised. In addition, the EuroGypsum quality standard has been awarded to the gypsum from the desulphurisation unit at the Litoral (Almería) thermal power plant, which certifies both its purity and quality and increases its value in the market.

Conservation of biodiversity.

Biodiversity conservation plan.

At the end of 2017 the Biodiversity Conservation Plan had 25 courses of action underway, of which 20 were launched in previous years (5 of them ended in 2017, and 15 are still in progress) and 5 new courses of action were begun in 2017. A breakdown of locations shows that 56% of them were carried out in areas affected by ENDESA's facilities and 24% were research projects which, in the majority of cases included the publication of articles and scientific papers.

These actions took place throughout Spain and Portugal and included many of ENDESA's business lines. Specifically, generation accounted for 56% of the activities, distribution 28% and the remaining 16% were in the corporate area.

The Biodiversity Conservation Plan's objectives for 2017 remain on the same main action lines as in previous years:

- Adapting the physical environment of the Company's land and facilities and encouraging biodiversity in a manner that is biogeographically compliant.

- Managing environmental factors at the company's facilities to help to improve the habitat of certain species and their biotopes.
- Recognising ENDESA's natural heritage and the ecosystems this is home to, their value and state of conservation.
- Protecting native species in and around ENDESA's plants and controlling invasive species that have a high ecological impact and an impact on ENDESA's business.

Highlights.

a) Studies and research.

In 2017, various studies were carried out, including:

- Comprehensive evaluation of the ecosystem services in the surroundings of different hydraulic plant reservoirs belonging to ENDESA in order to quantify the flow of the main ecosystem services of the basin.
- Design and start-up of a biodiversity indicator system, to define indicators for measuring the effects of ENDESA's facilities of biodiversity.
- Environmental assets on the roads beneath electricity lines, to unlock the value of the assets found under the distribution lines.
- Development and application of technologies to protect birdlife against collisions with low and medium voltage power lines.

b) Protection of birdlife.

In 2017, ENDESA carried out initiatives to protect birdlife in the main geographical areas in which it has power lines. The aim of these measures is to reduce or eliminate the risk of collision and electrocution among birdlife by providing supports on high voltage lines and the addition of insulation or signalling on lines that could pose a threat.

The rescue project for birds that have been electrocuted and/or suffered collisions due to electricity lines also stands out.

c) Social-environmental projects.

As part of its Biodiversity Conservation Plan ENDESA carries out projects with a strong socio-environmental component. These include:

- ENDESA forest initiative with the goal of repopulating burnt areas using direct sowing and planting techniques for native forest species.
- Restoration of native trees in the Boumort national park and monitoring of the trophic effect of the recovery of different species at risk (grouse, golden eagle, wildcat, etc.).

d) Other initiatives.

ENDESA participates in other initiatives in the area of biodiversity and sustainability such as the Biodiversity Pact, the Spanish business and biodiversity initiative (IEEB) and the Excellence in Sustainability Club (CES).

Environmental restoration.

In 2017, a study into plant and wildlife biodiversity in five mining zones restored by ENDESA was completed: Corta Barrabasa, Corta Gargallo in Andorra (Teruel), Corta Ballesta Este and Corta Cervantes en Peñarroya (Córdoba) and the Puertollano mine (Ciudad Real).

The objective of the study was to analyse the recovery of biodiversity in restored mining areas, and raise awareness of the ecosystems resulting from the environmental recovery of open air mines; to monitor its status, development and integration in the countryside and the terrain, collect data relating to its colonisation by species of flora and fauna, with a special focus on any that are protected, and to generally unlock their value.

11. Human Resources.

11.1. Workforce.

At 31 December 2017, ENDESA had a total of 9,706 employees, 0.1% more than a year earlier. ENDESA's average workforce in 2017 was 9,856 employees (+0.4%).

In 2017, employees from the systems and telecommunications activity (ICT) acquired joined the workforce, totalling 319 at 31 December 2017 (see section 2.5. Acquisition of the systems and telecommunications activity (ICT) of this Consolidated Management Report).

ENDESA's final and average headcounts in 2017 and 2016, by Business Line, were as follows:

Number of employees

	Period-end headcount						% Var.
	31 December 2017 ⁽¹⁾			31 December 2016			
	Men	Women	Total	Men	Women	Total	
Generation and supply	4,083	1,024	5,107	4,140	989	5,129	(0.4)
Distribution	2,491	429	2,920	2,707	467	3,174	(8.0)
Structure and other ⁽²⁾	884	795	1,679	679	712	1,391	20.7
TOTAL EMPLOYEES	7,458	2,248	9,706	7,526	2,168	9,694	0.1

(1) Includes the final workforce from the ICT business of ENDESA Medios y Sistemas, S.L.U. (319 employees) (see section 2.5. Acquisition of the systems and telecommunications activity (ICT) of this Consolidated Management Report).

(2) Structure and services.

Number of employees

Number of employees	Average headcount						% Var.
	2017 ⁽¹⁾			2016 ⁽²⁾			
	Men	Women	Total	Men	Women	Total	
Generation and supply	4,102	998	5,100	4,127	983	5,110	(0.2)
Distribution	2,582	441	3,023	2,841	474	3,315	(8.8)
Structure and other ⁽³⁾	917	816	1,733	691	703	1,394	24.3
TOTAL	7,601	2,255	9,856	7,659	2,160	9,819	0.4

(1) Includes the average workforce from the ICT business of ENDESA Medios y Sistemas, S.L.U. (329 employees), ENEL Green Power, S.L.U. (EGPE) (174 employees) and Eléctrica del Ebro, S.A. (20 employees) (see section 2.4. Consolidation scope and 2.5. Acquisition of the systems and telecommunications activity (ICT) of this Consolidated Management Report).

(2) Includes the average workforce of ENEL Green Power España, S.L.U. (EGPE) (86 employees) and Eléctrica del Ebro, S.A. (8 employees) since their respective takeover dates (see section 2.4. Consolidation scope of this Consolidated Management Report).

(3) Structure and services.

The breakdown by gender of the workforce at 31 December 2017 was 77% male, and the remaining 23% were female.

Information on ENDESA's workforce is provided in Note 38 to the Consolidated Financial Statements for the year ended 31 December 2017.

11.2. Occupational health and safety (OHS).

ENDESA considers Occupational Health and Safety (OHS) or “SSL” a priority and a fundamental value to preserve at all times for all who work for the Company, without distinction between own staff and its partner companies.

The inclusion of this target in ENDESA's strategy is as follows:

- Implementation of OHS policies at all the Group companies.
- Building a culture of security, based on the example of the leader, to reach all areas of the Company.
- And the implementation of a sole, global preventive system.

ENDESA also carries out various annual initiatives in its long-term strategy of continuous improvement in Occupational Health and Safety (OHS).

The main initiatives carried out in 2017 were based on:

- Leadership and communication
- Control, observation and analysis of activity;
- Coordination and collaboration with contractors;
- Technological development
- Training and awareness

To ensure that all operations are performed safely ENDESA has implemented a company-wide safety inspection programme. Inspections are performed partly by the company's own personnel and partly through collaborating entities that have previously been trained in ENDESA's work procedures in actions or behaviours that are not considered acceptable from the standpoint of risk prevention.

The main activities performed by ENDESA in 2017 were based on the action plan to prevent accidents, and on contractors. Accordingly, audits were carried out at contractors.

Workplace risk prevention, training and inspections.

In 2017, ENDESA provided 106,095 hours of OHS training for its personnel. 3,390 people attended training courses on risk prevention.

In 2017, 74,597 safety inspections were made on works and/or related projects by the company's own personnel and contractor, which contributed significantly to reducing workplace accidents. Further, 300 “Safety Walks” were carried out in 2017 and there were 15 Extra Checking On Site (ECoS) events - safety visits to a site made by experts from different countries to share best practices.

The Workplace Risk Prevention Management system requires any accident that occurs in the Company to be investigated. For serious, fatal or significant accidents (including accidents involving electricity or working at height) an investigation committee must be set up to analyse the event in detail, using “Root Cause Analysis” methodology. Further, for any significant accident, once the causes have been clarified and the preventive measures to be implemented have been specified, a “Lessons Learned” report is prepared to raise awareness across the rest of the organisation of the measures being undertaken to prevent such accidents for happening again.

Occupational health and safety (OHS) indicators.

In 2017 and 2016 the main Occupational Health and Safety (OHS) indicators were as follows:

	Main figures	
	2017	2016
Combined frequency index ⁽¹⁾	0.75	1.01
Combined seriousness index ⁽²⁾	0.09	0.08
Number of accidents ⁽³⁾	37.42	50.27

(1) Combined frequency index = (Number of accidents / Number of hours worked) x 106.

(2) Combined seriousness index = Number of days lost / Number of hours worked) x 103.

(3) Of which 3 in 2017 4 in 2016 were serious and fatal accidents.

11.3. Responsible personnel management.

ENDESA endeavours to create a healthy, well-balanced working environment, where respect and personal consideration take priority, an environment that offers professional development opportunities based on merit and ability.

To achieve this responsible management of personnel, ENDESA has grouped together all its CSR initiatives to seek to foster the Group values of responsibility, innovation, proactivity and confidence.

In 2017, the company worked on each of the dimensions of this CSR plan, carrying out various initiatives:

Diversity and equal opportunities.

ENDESA, within the policy of Diversity and Inclusion of the ENEL Group, rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA does everything possible to encourage and maintain a climate of respect for the dignity, honour and individuality of people, and ensures the highest standards of confidentiality with respect to any information related to employee privacy, of which it is aware.

In 2017, it implemented the courses of action in the agreement on selection, promotion and life-work balance, among other issues, signed with the Spanish Ministry of Health, Social Services and Equality, which renewed its Equality Award.

Work-life balance and flexibility.

At 31 December 2017, more than 1,260 ENDESA employees benefited from the initiatives to promote work-life balance in Spain and Portugal.

ENDESA continued to take steps to consolidate its flexible working environment which is designed to enable its employees to strike a balance between personal, family and professional life.

As part of the measures designed to promote a work-life balance, ENDESA's collective labour agreement in Spain specifies the adaptation of the work day to the needs of its employees, through flexible hours, temporary timetable changes, reductions in working hours, unpaid leave for looking after family members, remunerated leave, unpaid leave and absences and teleworking.

In 2017, the "Work outside the office" initiative was rolled out as a continuation of the "Work at home" action. This new initiative is designed to help achieve a work-life balance, in addition to promoting flexibility and autonomy in the selection of work spaces, times and methods, in order to build trust between the manager and employee, and responsibility for results. In total, 1,112 employees (559 women and 553 men) took part in this initiative in 2017.

Integration of people with disabilities and people at risk of social exclusion.

ENDESA implements measures to foster the integration of people with disabilities. There are a total of 80 disabled employees in Spain (see Note 38 to the Consolidated Financial Statements for the year ending 31 December 2017).

Promotion of volunteer work.

ENDESA encourages corporate volunteerism and works on numerous social development projects with the involvement of its employees. Corporate volunteers are a catalyst for other initiatives and bring the company closer to its stakeholders, fostering the development and commitment of the participants. Further, it reflects a commitment to the development of the communities in which they operate, contributing to activities that raise interest in the company and its stakeholders, such as facilitating access to energy for vulnerable groups, boosting employability, improving the environment, etc.

In 2017, 18 volunteer projects were carried out, with the involvement of 650 volunteers, of which 466 acted during their work day, contributing 3,206 hours. The remaining, 184 acted outside the work period, contributing 403 hours.

Over 10,800 people benefited from these initiatives in 2017.

11.4. Employment climate.

In 2017, specific action plans were implemented for all ENDESA's units and managers, starting at the most senior executive level, to boost motivation and commitment among the company's workforce.

The initiatives forming part of these plans aim to leverage strengths to address the areas of improvement identified. A large number of these were aimed at further improving management skills in environments that are increasingly flexible and more diverse. Another group of measures was aimed at encouraging employee participation in decision-making activities in projects and processes, to help develop the values of trust, proactivity, responsibility and innovation that make up ENDESA's management model.

Examples of actions included in these action plans are as follows:

- The internal communications campaign relating to ENDESA's work-life balance initiatives for employees.
- The launch of flexibility policies as a powerful driver of the “I work outside the office” project. This initiative is extremely important as it implements ENDESA's management philosophy based on flexibility and autonomy in the selection of work spaces, times and methods, in order to build trust in employees and help teams to focus on their responsibility for results. The “I work outside the office” project has clearly helped to drive workplace flexibility and has established a consistent base for a new work model (see Section 11.3. Responsible Personnel Management in this Consolidated Management Report).
- The pilot “Smart Workplace” project, aimed at providing the E-Solutions team with a new environment in which its members can be more productive and at the same time happier. The concept revolutionises several key lines of the work methods of a business unit: physical space, technology, processes and HR policies. Harmonising these aspects of day-to-day work, the aim is to make the teams more creative, innovative and agile in the development of their projects, thereby improving the performance and results of the business line.

Workplace action plans are regularly monitored to ensure they comply with the planning and targets set for 2018.

11.5. Leadership and personal development.

ENDESA constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. From this standpoint, talent management ensures the development of personnel based on merit and their contribution.

ENDESA's leadership model is based on the Group's vision, mission, values and codes of conduct. The Open Power values are present in all employee management and development systems, and are as follows: responsibility, innovation, confidence and proactivity.

In 2017, 89.33% of employees took part in processes to appraise their professional performance and development through one of ENDESA's assessment systems, thereby appraising the performance of 8,670 employees, 0.5 times more than in 2016.

ENDESA has also maintained its “Performance Appraisal” (PA) system. In addition to the Management by Objectives (MBO) and Sales Force Objectives (SFO) systems. As part of the appraisal systems, an “Annual Bonus” (AB) is awarded to employees with a variable remuneration component, not included in the MBO and SFO systems. 11,395 assessments were performed in 2017.

11.6. Training.

ENDESA establishes its annual Training Plan to provide employees with the qualifications they need to carry out their functions and develop their personal and professional attitudes and skills. The Plan is centred on achieving compliance with the Company's strategic objectives and on promoting its values.

To undertake this activity, ENDESA invested Euros 22 million, of which Euros 4 million correspond to direct training costs.

In 2017, ENDESA held 2,654 training events, in which 8,234 employees took part. 342,745 training hours were given, with an average of 35.3 hours per employee.

ENDESA's commitment to compliance with legislation in force concerning each and every area in which it operates entails a large number of training activities - safety, prevention of criminal risk, sustainability and the environment.

Occupational health and safety (OHS) training.

With regard to occupational health and safety, the employment hazards prevention courses are compulsory for all employees, and consist of both an online methodology and practical classes, depending on contents and the target audience. Specific courses of action are carried out for positions with specific levels of responsibility in relation to prevention, such as the Prevention Representatives, Prevention Resources and members of emergency teams. Courses and recycling workshops are used to update knowledge of regulations and also of ENDESA's own procedures.

Energy sustainability training.

The global new energy model necessarily entails a focus on sustainability, and this is the objective of the Group's Open Power facility. Therefore, training in this area is important, with the design, development and implementation of courses aimed at ensuring ENDESA employees take aboard the sustainability principles in their private and professional activities, and through changes in their energy performance, are a reference for the Company.

Environmental training.

Environmental training was further strengthened in 2017 with around 7,000 hours of class provided to ENDESA employees. In this way, the Company complied with requirements for renewal of its different ISO 14001 and Integrated Environmental, Energy Efficiency and Indoor Air Quality Management System certificates.

Digitalisation training.

In the midst of a digital environment, training in the digital transformation has been a key chapter, with more than 8,126 hours of class given using different methods such as webinars, workshops, e-learning, face to face classes, etc. A training programme known as “e-talent: turn on your digital energy” was prepared to drive a change in culture and attitude. Further, the number of courses with digitalisation content was increased, especially in relation to big data, salesforce, Google analytics, digital marketing and social media management.

Other training activities.

Through its courses in management skills, social skills and leadership ENDESA has provided employees with tools to ensure their personal and professional development. These courses are managed transversally among different lines of business and support areas. In 2017, 67,482 training hours were provided.

In 2017, the focus was on training for management positions in the areas of flexibility and change management through design, development and running of a course entitled “Remote team leadership”, activated following

the launch of the “I work outside the office” initiative (see Section 11.2. Responsible Personnel Management in this Consolidated Management Report).

The “From Leader to Coach” training programme was directed at all Group managers, with the objective of fostering leadership through coaching tools, in line with the ENEL Group's Open Power values.

Another of ENDESA's concerns over the years has been technical capacitation for its employees. This assists their professional development and gives them the qualifications to go about their tasks. Almost 95,543 hours of technical instruction were taught in 2017 at the Generation, Renewables, Distribution and Supply units, and also at the ICT and Purchases units and Support Areas.

Finally, since it forms part of a multinational, ENDESA is keen to provide language classes, mainly English and Italian, with a wide range of programmes in different formats.

11.7. Attracting and retaining talent.

In order to attract the best talent, ENDESA focuses on Employer Branding to promote the company in the job market and remain an attractive place to work. Over the past few years, the focus has been on attracting young talent. The Company has attended job fairs at different universities, international job congresses and professional training centres. Its presence at these encounters seeks to demonstrate to young people the Company's focus on innovation, and attract profiles that match the values of the Group: confidence, responsibility, innovation and proactivity.

In 2017, 161 young graduates or millennials were engaged on the ENDESA Grants Programme. The programme boosts their employability and gives them the opportunity to put into practice the knowledge acquired at university, and begin a professional career. 35% of these students were taken on after their grants expired.

In a digital environment, communication and relations with candidates change and for this reason the company has strengthened its position on the social networks and other online platforms so that these channels contribute to the recruitment process.

ENDESA is also keen to cover vacancies through internal promotions, giving priority to employees who have shown themselves to be exceptional performers. The keynotes of selection processes are diversity, meritocracy and corporate values.

ENDESA not only carries out internal selection processes for each country, but also occasionally arranges professional employee swaps between countries. This aspect has come to the fore since ENDESA joined the ENEL Group.

International mobility.

In 2017, ENDESA, as part of the ENEL Group, continued to roll out international mobility programmes for employees in order to contribute to their development in international arenas, widen their global business vision and boost their technical knowledge.

The international mobility programme were efficiently managed and foster a global career, thereby strengthening the Group's multinational culture. In 2017, 65 employees were expatriated and 12 returned to their country of origin. A further 16 international mobility actions were processed in Spain as part of the ENEL Group, outside of the scope of ENDESA, S.A.

Personnel selection.

ENDESA encourages employees to participate in its hiring processes, fomenting internal mobility and providing opportunities for people looking for new learning and professional development opportunities according to their interests and personal motivation. In this regard, internal job vacancies are given priority.

In 2017, ENDESA carried out 230 published internal selection processes, in which over 1,700 employees were involved.

In cases where ENDESA is unable to promote employees from within the company, the company seeks people directly linked to its activities through internships, grants or specific contracts, in addition to using different databases.

When vacancies cannot be covered through internal promotion, the company looks to the labour market. In 2017, more than 200 external job vacancies were processed for permanent and temporary staff in Spain and Portugal.

Remuneration policy.

ENDESA's remuneration policy is aligned with Spanish and international regulatory recommendations in the area of corporate governance. The company's main objective is to retain, attract and motivate the best professionals, ensuring that internal equality and external competition are maintained, and establishing remuneration according to best market practices.

ENDESA's remuneration policy therefore seeks to ensure competitive and equal compensation among its employees. Remuneration is determined according to an external competition analysis based on market wage surveys, using a valuation methodology that assesses similar posts in companies with a similar number of employees and turnover.

ENDESA's remuneration policy is also merit-based. In 2017, as in previous years, a policy of meritocracy was applied for all employees in all professional categories. The objective of these processes is to reward the efforts of personnel and their commitment to the Company, adjusting remuneration on a case by case basis, while ensuring that the minimums established in the collective labour agreement are observed. This policy also strengthens the role of the manager in recognising employees' achievements.

11.8. Social dialogue.

Working conditions at ENDESA are regulated by collective labour agreements to improve employment regulations in the fields in which the Company operates. ENDESA guarantees the right to freedom of association for its employees and for all its contractors, suppliers and business partners.

In Spain and Portugal there were 4 collective agreements in operation at the end of 2017 affecting 8,880 employees, 91.49% of the workforce.

Pursuant to existing Spanish labour legislation and ENDESA's labour regulations in Spain (IV Framework Collective Agreement and the Framework Agreement ensuring labour conditions for ENDESA SA and its electricity subsidiaries with registered offices in Spain, Agreement on Voluntary Suspension) the criteria are established that should be adhered to where corporate and business restructuring operations take place (see Chapter III of the Framework Agreement ensuring labour conditions), whereby Employees' Representatives must be informed of any such changes in the organisation at least 30 days in advance.

The most important actions regarding collective bargaining in 2017 were as follows:

- Negotiation and agreement on the transfer of workers between different companies.
- Negotiation of the new organisation for the distribution business.
- Negotiation of the reorganisation of the Hydro Production, Colón Combined Cycle and Global E-Solutions units.

In Spain, on 26 June 2017, the negotiation process for ENDESA's 5th Collective Agreement was announced, and on 26 October 2017, the Negotiating Committee related thereto was convened.

Spain has been an ILO signatory since its foundation, and ENDESA's conventional regulations meet the existing ILO Conventions ratified by Spain.

12. Treasury Shares.

ENDESA did not hold any treasury shares at 31 December 2017 and did not carry out any transactions involving treasury shares in 2017.

13. Other information.

13.1. Stock Market Information.

The performance of ENDESA's share price on the Madrid stock market and major indexes in 2017 and 2016 is as follows:

Percentage (%)			
Share price performance ⁽¹⁾			
	2017	2016	
ENDESA, S.A.	(11.3)		8.6
IBEX-35	7.4		(2.0)
Euro Stoxx 50	6.5		0.7
Euro Stoxx Utilities	15.7		(7.8)

(1) Considering dividends distributed in 2017, in the gross amount of Euros 1,333 per share, the return for shareholders in 2017 was -4.7%. Considering the dividends distributed in 2016, in the gross amount of Euro 1,026 per share, the return for shareholders in 2016 was 14.2%.

Stock Market Data		31 December 2017	31 December 2016	% Var.
Market cap	Millions of Euros (1)	18,904	21,307	(11.3)
Number of outstanding shares		1,058,752,117	1,058,752,117	-
Nominal share value	Euros	1.2	1.2	-
Cash	Millions of Euros (2)	10,866	10,784	0.8
Continuous market				
Trading volume	Shares	536,793,866	596,186,291	(10.0)
Average daily trading volume	(3)	2,105,074	2,319,791	(9.3)
Price to Earnings Ratio (P.E.R.)	(4)	12.92	15.10	-
Price / Carrying amount	(5)	2.08	2.38	-

(1) Market Cap = Number of Shares at the Close of the Period * Listing Price at the Close of the Period.

(2) Cash = Sum of all the operations made over the value in the reference period (Source: Madrid Stock Exchange).

(3) Trading volume = Total volume of stock in ENDESA, S.A. traded in the period (Fuente: Madrid Stock Exchange).

(4) Average daily trading volume = Arithmetic mean of stock in ENDESA, S.A. traded per session during the period (Source: Madrid Stock Exchange).

(5) Price to Earnings ratio (PER) = Share price at the close of the period / Earnings per share.

(6) Price / Carrying amount = Market capitalisation / Equity of the Parent.

Euros			
ENDESA share price ⁽¹⁾			
	2017	2016	% Var.
High	22,760	20,975	8.5
Low	17,855	15,735	13.5
Average in the period	20,234	18,151	11.5
Closing price	17,855	20,125	(11.3)

(1) Source: Madrid Stock Exchange.

2017 was a very positive year for the main western stock markets on the back of improved macroeconomic conditions, increased corporate earnings and higher business investment. Several indices hit historical highs, with technology, energy companies and airlines heading the field.

In this favourable environment, the Spanish IBEX-35 index closed the year with a gain of 7.4%, the first rise in three years. Despite this good performance, the Spanish bourse underperformed all the other European markets due mainly to investor jitters in the second half of the year over the political uncertainty in Catalonia.

In Europe, the Italian market stood out, with the FTSE MIB gaining 13.6%, boosted by an improved financial sector, followed by the German exchange, with the DAX up 12.5%, and the French market, where the CAC 40 gained 9.3%. More in line with Spain, the UK Footsie 100 rose 7.6%, while the pan-European Eurostoxx 50 showed a slightly lower gain of 6.5%. The US indices, trading a historic highs, closed the year with gains ranging from 20% to 30%.

In Spain, the IBEX-35 started the year on a bullish trend, hitting an annual high of 11,135 points in May, at which point it showed a gain of over 19%. From then on, the index started a slow decline, pressured down by the political events in Catalonia. The independence referendum held on 1 October triggered the worst ever session for the IBEX-35, which saw an intraday loss of 12% and fell back below the resistance level of 10,000 points.

The last two months of the year were marked by the events that occurred after Catalonia's unilateral declaration of independence and the application of article 155 of the Spanish constitution, causing numerous fluctuations in the IBEX-35. Nonetheless, the index recovered ground at the end of the year and closed at 10,044 points, with the aforementioned year on year gain of 7.4%. By sector, the best performers were companies linked to infrastructure, tourism and raw materials, while two companies in the engineering sector affected by profit warnings over the year fared the worst.

The overall performance of the European energy sector, reflected by the Dow Jones Eurostoxx Utilities sector index was very positive, backed by companies' improved financial conditions and projected concentration in the sector.

The Eurostoxx Utilities index closed the year up 15.7%, buoyed by the strong performance of German companies, which gained ground after the restructuring processes carried out in the previous year. French and Italian utilities also performed well overall, while Spanish and Portuguese stocks lagged behind. Within this Group, ENDESA finished in final position, with a decline of 11.3% in the year.

Like the IBEX-35, ENDESA's shares started the year on a positive note. The share price hit a new historical high of Euros 22.76 per share on 8 May 2017. However, the first quarter results presentation made on the same day confirmed the difficult market conditions for ENDESA's businesses in 2017, a year marked by persistent drought, scant wind resources and high fuel costs, and investors started to unwind their positions.

In addition to this complex operating environment, from the summer onwards speculation that the next review of the regulated businesses before the start of the second regulatory period starting in 2020 would be extremely negative began to gather force. Investors assumed that this review would particularly affect ENDESA, focused exclusively on the Spanish and Portuguese markets, with regulated business accounting for approximately 70% of its total business.

Lastly, despite the positive reception of the new Strategic Plan for 2018-2020 presented on 22 November 2017, ENDESA's significant exposure to Catalonia impacted share price performance in the last two months of the year, and the shares hit an annual low of Euros 17.855 per share at the close of 2017, with a cumulative loss of 11.3% in the year.

This negative market return was partly offset by the ordinary dividend of Euros 1,333 gross per share paid by the company against 2016 profits, which offered a dividend yield of 6.6%. Total shareholder return, calculated as the sum of the market return and dividend yield was -4.7% in 2017.

13.2. Dividend policy.

The Board of Directors of ENDESA, S.A. operates an economic-financial strategy to generate a significant amount of cash to maintain Company debt levels and maximise shareholder remuneration. This is also a guarantee of sustainability for the business project undertaken.

As a result of this economic-financial strategy, unless any exceptional circumstances arise, which will be duly announced, at a meeting on 21 November 2017 the Board of Directors of ENDESA, S.A. approved the following shareholder remuneration policy for 2017-2020:

- 2017 to 2020: the ordinary dividend per share distributed against these years will be the equivalent to 100% of ordinary net profit attributable to the Parent company set down in the Consolidated Financial Statements of the Group headed by this company, with a minimum of Euros 1.32 per share, gross, in 2017 and Euros 1.33 per share, gross in 2018.
- The intention of the Board of Directors of ENDESA, S.A. is that the ordinary dividend will be paid solely in cash in two instalments (January and July) on a given date to be determined in each case, which will be duly notified.

However, ENDESA's capacity to pay out dividends to its shareholders depends on numerous factors, including the generation of profit and the availability of unrestricted reserves, and, therefore, the Company cannot ensure that dividends will be paid out in future years or the amount of such dividends if paid.

In respect of 2017, at a meeting on 21 November 2017 ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2017 profits of Euros 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2018.

The proposed distribution of profit in 2017 to be presented for approval at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 1.382 per share (see Section 17. Proposed distribution of net income in the Consolidated Management Report).

Taking into account the interim dividend referred to in the preceding paragraph, the complementary dividend in respect of 2017 profits will be a gross amount of Euro 0.682 per share.

Details of ENDESA, S.A.'s per-share dividends in 2017 and 2016 are as follows:

		2017	2016	% Var.
Share capital	Millions of Euros	1,270.50	1,270.50	-
Number of shares		1,058,752,117	1,058,752,117	-
Consolidated net profit	Millions of Euros	1,463	1,411	3.7
Individual net profit	Millions of Euros	1,491	1,419	5.1
Earnings per share	Euros (1)	1,382	1,333	3.7
Gross dividend per share	Euros	1,382 (2)	1,333 (3)	3.7
Consolidated pay-out	(%) (4)	100.0	100.0	-
Individual pay-out	(%) (5)	98.1	99.4	-

(1) Earnings per Share (Euros) = Parent company period result / Shares.

(2) Gross interim dividend of Euro 0.7 per share paid on 2 January 2018, plus an additional gross dividend of Euro 0,682 per share pending approval by the ENDESA, S.A. General Shareholders' Meeting. (see Section 17 Proposed Distribution of Net Income in this Consolidated Management Report).

(3) Gross interim dividend of Euro 0.7 per share paid on 2 January 2017, plus an additional gross dividend of Euro 0,633 paid 3 July 2017.

(4) Consolidated pay-out (%) = (Gross dividend per share * Shares) / Parent company period result.

(5) Individual pay-out (%) = (Gross dividend per share * Shares) / Period result of ENDESA, S.A.

14. Information on the Average Payment Period to Suppliers.

Information on the average payment period to suppliers is provided in Note 23.1 to the Consolidated Financial Statements of ENDESA S.A. for the year ended 31 December 2017.

15. Annual Corporate Governance Report as required by Article 538 of Royal Decree Law 1/2010, of 2 July, approving the Consolidated Text of the Spanish Corporate Enterprises Act.

The 2017 Annual Corporate Governance Report as required by Article 538 of Royal Decree Law 1/2010, of 2 July, approving the Consolidated Text of the Spanish Corporate Enterprises Act, is included as Appendix II to this Consolidated Management Report, and forms an integral part thereof.

16. Statement of Non-financial Information as required by Royal Decree Law 18/2017, of 24 November, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Decree Law 1/2010, of 2 July, and Law 22/2015, of 20 July, on the auditing of financial statements.

The Statement of Non-financial Information as required by Royal Decree Law 18/2017, of 24 November, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Decree Law 1/2010, of 2 July, and Law 22/2015, of 20 July, on the auditing of financial statements, is included as Appendix III to this Consolidated Management Report, and forms an integral part thereof.

17. Proposed distribution of net income.

The net income for 2017 of ENDESA, S.A., the Parent, amounted to Euros 1,491,524,172.41.

The Company's Board of Directors will propose to the shareholders at the General Shareholders' Meeting that this amount be used to make a dividend payment of Euros 1.382 gross per share with the rest taken to retained earnings.

		Proposed distribution of net income
		Euros
To dividends	(1)	1,463,195,425.69
To retained earnings		28,328,746.72
TOTAL		1,491,524,172.41

(1) Maximum amount to be distributed based on Euros 1.382 gross per share for all shares (1,058,752,117 shares).

26 February 2018

APPENDIX I

Alternative Performance Measures

Alternative Performance Measures (APMs)	Unit	Definition	Reconciliation of Alternative Performance Measures (APMs)		Relevance of use
			31 December 2017	31 December 2016	
EBITDA	Millions of Euros	Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.	3,542 MME = 20,057 MME - 14,569 MME + 222 MME - 917 MME - 1,251 MME	3,432 MME = 18,979 MME - 13,327 MME + 117 MME - 1,128 MME - 1,209 MME	Measure of operating return excluding interest, taxes, provisions and amortisation
EBIT	Millions of Euros	EBITDA - Depreciation and amortisation, and impairment losses.	2,031 MME = 3,542 MME - 1,511 MME	1,965 MME = 3,432 MME - 1,467 MME	Measure of operating return excluding interest and taxes
Contribution margin	Millions of Euros	Revenue - Procurements and services	5,488 MME = 20,057 MME - 14,569 MME	5,652 MME = 18,979 MME - 13,327 MME	Measure of operating return including direct variable production costs
Procurements and Services	Millions of Euros	Energy purchases + Fuel consumption + Transport expenses + Other variable procurements and services.	14,569 MME = 4,933 MME + 2,294 MME + 5,652 MME + 1,690 MME	13,327 MME = 4,056 MME + 1,652 MME + 5,813 MME + 1,806 MME	Goods and services for production
Net financial gain/(loss)	Millions of Euros	Financial income - Financial expense + Net exchange differences.	(123) MME = 51 MME - 178 MME + 4 MME	(182) MME = 44 MME - 222 MME - 4 MME	Measure of financial cost
Net investment	Millions of Euros	Gross investments - Capital grants and transferred facilities	982 MME = 1,175 MME - 193 MME	1,028 MME = 1,221 MME - 193 MME	Measure of investment activity
Net financial debt	Millions of Euros	Non-current financial liabilities + Current financial liabilities - Cash and cash equivalents - Financial derivatives recognised under assets	4,985 MME = 4,414 MME + 978 MME - 399 MME - 8 MME	4,938 MME = 4,223 MME + 1,144 MME - 418 MME - 11 MME	Short and long-term financial debt, less cash and financial investment cash equivalents
Leverage	%	Net financial debt / Equity	53.99% = 4,985 MME / 9,233 MME	54.34% = 4,938 MME / 9,088 MME	Measure of the weighting of external funds in the financing of business activities
Debt	%	Net financial debt / (Equity + Net financial debt)	35.06% = 4,985 MME / (9,233 MME + 4,985 MME)	35.21% = 4,938 MME / (9,088 MME + 4,938 MME)	Measure of the weighting of external funds in the financing of business activities.
Average Life of Gross Financial Debt	Number of years	(Principal * Number of valid days) / (Valid principal at the close of the period * Number of days in the period).	6.1 years = 32,944 / 5,380	6.5 years = 34,928 / 5,342	Measure of the duration of financial debt to maturity
Average Cost of Gross Financial Debt	%	(Cost of gross financial debt) / Gross average financial debt	2.1% = 130 MME / 6,082 MME	2.5% = 128 MME / 5,191 MME	Measure of the effective rate of financial debt
Debt Coverage Ratio	Number of months	Maturity period (months) for vegetative debt that could be covered with the liquidity available.	29 months	17 months	Measure of the capacity to meet debt maturities
Return on equity	%	Profit/loss attributable to the Parent / Average equity of the Parent	16.21% = 1,463 MME / 9,024 MME	15.69% = 1,411 MME / 8,994 MME	Measure of the capacity to generate profits on shareholder investments
Return on assets	%	Profit/loss attributable to the Parent / Average total assets.	4.72% = 1,463 MME / 30,998.5 MME	4.69% = 1,411 MME / 30,102.5 MME	Measure of business profitability
Economic profitability	%	EBIT / Average PP&E.	9.31% = 2,031 MME / 21,809 MME	9.20% = 1,965 MME / 21,353 MME	Measure of the capacity to generate income from invested assets and capital
Return on capital employed (ROCE)	%	Operating profit after tax / (Average non-current assets + Average current assets).	5.08% = 1,574.6 MME / 30,998.5 MME	5.39% = 1,622.6 MME / 30,102.5 MME	Measure of the return on invested capital
Liquidity	N/A	Current assets / Current liabilities.	0.73 = 5,530 MME / 7,535 MME	0.72 = 5,435 MME / 7,521 MME	Measure of the capacity to meet short term commitments
Solvency	N/A	(Equity + Non-current liabilities) / Non-current assets	0.92 = (9,233 MME + 14,269 MME) / 25,507 MME	0.92 = (9,088 MME + 14,351 MME) / 25,525 MME	Measure of the capacity to meet obligations
Debt coverage	N/A	Net financial debt / EBITDA	1.41 = 4,985 MME / 3,542 MME	1.44 = 4,938 MME / 3,432 MME	Measure of the amount of available cash flow to meet payments of principal on financial debt
Earnings per Share	Euros	Parent company period result / Shares at the close of the period	1.38 € = 1,463 MME / 1,058,752,117 shares	1.33 € = 1,411 MME / 1,058,752,117 shares	Measure of the portion of net profit corresponding to each share outstanding
Cash Flow per Share	Euros	Net cash flow of the operating activities / Shares at the close of the period	2.30 € = 2,438 MME / 1,058,752,117 shares	2.83 € = 2,995 MME / 1,058,752,117 shares	Measure of the portion of funds corresponding to each share outstanding
Book value of equity per share	Euros	Parent Company equity / Shares at the close of the period	8.59 € = 9,096 MME / 1,058,752,117 shares	8.46 € = 8,952 MME / 1,058,752,117 shares	Measure of the portion of own funds corresponding to each share outstanding
Market Cap	Millions of Euros	Number of shares at the close of the period * Share price at the close of the period.	18,904 MME = 1,058,752,117 shares * 17,855 €	21,307 MME = 1,058,752,117 shares * 20,125 €	Measure of the total enterprise value according to the share price.
Price to Earnings Ratio (P.E.R.)	N/A	Share price at the close of the period / Earnings per share	12.92 = 17,855 € / 1.38 €	15.10 = 20,125 € / 1.33 €	Measure indicating the number of times earnings per share can be divided into the market price of the shares
Price / Carrying amount	N/A	Market capitalisation / Equity of the Parent	2.08 = 18,904 MME / 9,096 MME	2.38 = 21,307 MME / 9,052 MME	Measure comparing the total enterprise value according to the share price with the carrying amount
Consolidated Pay-Out	%	Gross dividend per share * N° shares at the close of the period / Profit for the year of the parent	100.0% = (1,382 € * 1,058,752,117 shares) / 1,463 MME	100.0% = (1,333 € * 1,058,752,117 shares) / 1,411 MME	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (Consolidated Group)
Individual Pay-Out	%	(Gross dividend per share * N° shares at the close of the period / Profit for the year of the ENDESA, S.A.	98.1% = (1,382 € * 1,058,752,117 shares) / 1,491 MME	99.4% = (1,333 € * 1,058,752,117 shares) / 1,419 MME	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (individual company)

MME = millions of Euros; € = Euros.

APPENDIX II

Annual Corporate Governance Report

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

END OF RELATIVE FINANCIAL YEAR	31/12/2017

COMPANY TAX ID (C.I.F.):	A-28023430

CORPORATE NAME

ENDESA, S.A.

REGISTERED OFFICE

RIBERA DEL LOIRA, 60, MADRID

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the Company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
01/10/1999	1,270,502,540.40	1,058,752,117	1,058,752,117

Indicate whether different types of shares exist with different associated rights.

Yes

No X

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ENEL, S.P.A.	0	742,195,713	70.10%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
ENEL, S.P.A.	ENEL IBERIA SRL	742,195,713

Indicate the most significant movements in the shareholder structure during the year.

A.3 Complete the following tables on company directors holding voting rights through company shares.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	0	30,471	0.00%
JOSE DAMIAN BOGAS GALVEZ	2,374	0	0.00%
MR. ALEJANDRO ECHEVARRÍA BUSQUET	200	0	0.00%
HELENA REVOREDO DELVECCHIO	332	0	0.00%
MIQUEL ROCA JUNYENT	363	0	0.00%
MR. BORJA PRADO EULATE	16,405	0	0.00%
FRANCISCO DE LACERDA	0	0	0.00%
FRANCESCO STARACE	10	0	0.00%
ENRICO VIALE	2,500	0	0.00%
ALBERTO DE PAOLI	10	0	0.00%
MS. MARIA PATRIZIA GRIECO	0	0	0.00%

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	MANILA INVERSIONES GLOBALES SICAV, S.A.	30,471

Complete the following tables on share options held by directors.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name
ENEL IBERIA SRL ENEL, S.P.A.

Type of relationship: Corporate

Brief Description:

Enel, S.p.A. holds 100% of the shares in Enel Iberia, SRL.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name
ENDESA INGENIERÍA, S.L.U. ENEL SOLE, S.R.L.

Type of relationship:

Company **Brief**

Description:

Endesa Ingeniería, S.L.U. (an Endesa Group subsidiary) and Enel Sole, S.r.L. (an Enel Group subsidiary) hold 50% stakes in the following temporary joint ventures: Mérida, Abarán, Rincón de la Victoria, Bolullos, Castro del Río, Muro de Alcoy, Fuente Álamo, Mora de Ebro, Los Alcázares, Vélez Rubio, Écija, Almodóvar del Río and Manacor. Endesa Ingeniería, S.L.U. (10%), Endesa Energía, S.A.U. (25%) (Endesa Group subsidiary) and Enel Sole, S.r.L. (25%) (an Enel Group subsidiary) hold stakes in the Móstoles temporary joint venture

Related party name or corporate name
ENDESA GENERACIÓN, S.A.U. ENEL, S.P.A.

Type of relationship:

Company **Brief**

Description:

Endesa Generación, S.A.U. (an Endesa Group subsidiary) and Enel S.p.A hold 40.99% and 4.32% stakes in the share capital of Elcogas, S.A., respectively.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes

No X

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable.

Yes

No X

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

-

A.7. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company pursuant to article 4 of the Securities' Market Act. If so, identify.

Yes X

No

Name or corporate name
ENEL IBERIA SRL

Remarks

Enel, S.p.A. is the sole shareholder of Enel Iberia

A.8 Complete the following tables on the company's treasury shares. At

year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

(*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Explain the significant changes

A.9 Give details to the Board of Directors of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back or transfer treasury stock.

At the Ordinary General Meeting of 27 April 2015, shareholders authorized the Company and its subsidiaries to acquire treasury shares pursuant to the provisions of Article 146 of Spain's Corporate Enterprises Act.

I. To revoke and make void, as to the unused portion, the authorization for the derivative acquisition of treasury shares, granted by the Ordinary General Shareholders' Meeting held on 21 June, 2010.

II. To once again authorize the derivative acquisition of treasury shares, as well as the pre-emptive rights of first refusal in respect thereto, pursuant to article 146 of the Spanish Corporate Enterprises Act under the following conditions:

- a) Acquisitions may be made via any legally accepted method, directly by ENDESA, S.A., by its Group companies or by proxy, up to the maximum legal limit.
- b) Acquisitions shall be made at a minimum price per share of its par value and a maximum equal to their trading value plus an additional 5%.
- c) The duration of this authorization shall be 5 years.

d) As a consequence of the acquisition of shares, including those purchased previously and held at the time of the acquisition by the company or persons acting on their own behalf but in its stead, the resulting net equity shall not be reduced to below the sum of the share capital plus the restricted reserves established by law or the bylaws, all in accordance with the provisions of letter b) of article 146.1 of Spain's Corporate Enterprises Act.

The authorization also includes the acquisition of shares which, as the case may be, must be delivered directly to the employees and Directors of the Company or its subsidiaries, as a consequence of the exercise of stock option rights held thereby.

A.9 (2) Estimated floating capital:

	%
Estimated floating capital	29.90

A.10 Give details of any restriction on the transfer of securities or voting rights. In particular, indicate any restrictions that could prevent a party from taking control of the company by acquiring its shares on the market.

Yes

No X

A.11 Indicate whether the general shareholders' meeting has agreed to take neutralization measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes

No X

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes

No X

If so, indicate the different classes of shares and, for each class, the rights and obligations carried thereby.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the general shareholders' meeting. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).

Yes

No X

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC.

Yes

No X

Describe how they differ from the rules established under the LSC.

B.3 Indicate the rules for modifying the company's bylaws. In particular, indicate the majorities required to amend the bylaws and, if applicable, the rules for protecting shareholders' rights when changing the bylaws.

Pursuant to article 26 of the Bylaws, in order for the General or an Extraordinary Shareholders' Meeting to validly agree on the amendment to the Corporate Bylaws, on first call, shareholders representing at least 50% of the subscribed capital with voting rights must be present. At second call, 25% of the capital must be represented.

Indicate the attendance figures for the general shareholders' meetings held during the year and the preceding year.

Date of General Shareholders' Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Others	
27/04/2015	70.17%	13.09%	0.00%	1.53%	84.79%
26/04/2016	70.13%	14.45%	0.00%	1.77%	86.35%
26/04/2017	70.12%	14.47%	0.00%	1.02%	85.61%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes

No X

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The Company's website is www.endesa.com

- Information on "Corporate Governance" can be accessed from the homepage via "Investors"

To access General Shareholders' Meeting content, a direct banner link is posted on the home page from the time the meeting is called until it is held.

Once the meeting has been held, the General Shareholders' Meeting information can be accessed through two channels:

- Shareholders and Investors - Corporate Governance - Shareholders Meetings
- Shareholders and Investors - Shareholders - Shareholders Meetings

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the bylaws.

Maximum number of directors	15
Minimum number of directors	9

C.1.2. Complete the following table with Board members' details.

Name or corporate name of Director	Representative	Category of the director	Position on the board	Date first appoint.	Date last appoint.	Election procedure
IGNACIO GARRALDA RUIZ DE VELASCO		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
JOSE DAMIAN BOGAS GALVEZ		Executive	CHIEF EXECUTIVE OFFICER	07/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MR. ALEJANDRO ECHEVARRÍA BUSQUET		Independent	DIRECTOR	25/06/2009	26/04/2017	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
HELENA REVOREDO DELVECCHIO		Independent	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MIQUEL ROCA JUNYENT		Independent	DIRECTOR	25/06/2009	26/04/2017	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MR. BORJA PRADO EULATE		Executive	CHAIRMAN	20/06/2007	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCISCO DE LACERDA		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCESCO STARACE		Proprietary	VICE CHAIRMAN	16/06/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ENRICO VIALE		Proprietary	DIRECTOR	21/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ALBERTO DE PAOLI		Proprietary	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MS. MARIA PATRIZIA GRIECO		Proprietary	DIRECTOR	26/04/2017	26/04/2017	COOPTATION

Total number of Directors	11

Indicate any board members who left during this period.

Name or corporate name of director	Category of the director at the time	Leaving date
LIVIO GALLO	Proprietary	26/04/2017

C.1.3. Complete the following tables on Board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Post held in the company
JOSE DAMIAN BOGAS GALVEZ	Chief Executive Officer
MR. BORJA PRADO EULATE	CHAIRMAN

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
FRANCESCO STARACE	ENEL, S.P.A.
ENRICO VIALE	ENEL, S.P.A.
ALBERTO DE PAOLI	ENEL, S.P.A.
MARIA PATRIZIA GRIECO	ENEL, S.P.A.

Total number of proprietary directors	4
% of the board	36.36%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

IGNACIO GARRALDA RUIZ DE VELASCO

Profile:

Born in Madrid in 1951. Holds a degree in Law from the Complutense University of Madrid, Chartered Trade Broker and Stock and Exchange Broker.

Chairman and CEO of Mutua Madrileña, First Vice Chairman of Bolsas y Mercados Españoles (BME). Director at Caixabank, S.A.

Name or corporate name of director: MR. ALEJANDRO

ECHEVARRÍA BUSQUET

Profile:

Born in Bilbao in 1942, he holds a degree in Business Administration from the University of Deusto. Chairman of Mediaset España Comunicación, S.A. Director at Sociedad Vascongada de Publicaciones, S.A., CVNE, Editorial Cantabria, S.A., Diario El Correo and Willis Iberia.

Name or corporate name of director: HELENA REVOREDO

DELVECCHIO

Profile:

Born in Rosario (Argentina) in 1947. Holds a degree in Business Management and Administration from the Pontifical Catholic University of Argentina and PADE (Business Senior Management Programme) from the IESE Business School.

Chairwoman of Prosegur Compañía de Seguridad, S.A., Chairwoman of the Prosegur Foundation. Director at Mediaset España Comunicación, Romercapital SICAV, S.A., Proactinmo, S.L., Gubel, S.L., and Euroforum Escorial, S.A.

Name or corporate name of director: MIQUEL ROCA

JUNYENT

Profile:

Born in Cauderan (France) in 1940. Law graduate from the University of Barcelona and holder of an Honorary Doctorate from the distance learning universities of León, Gerona and Cadiz.

Chairwoman and Partner of the Roca Junyent Law Firm, Ombudsman for Catalana Occidente. Secretary - Non-director at Banco Sabadell, Abertis Infraestructuras, TYPESA, Accesos de Madrid, S.A. and Werfenlife, S.L. Director at ACS and Aigües de Barcelona.

Name or corporate name of director:

FRANCISCO DE LACERDA

Profile:

Born in Lisbon in 1960. Holds a degree in Business Administration from the Catholic University of Portugal.

Vice Chairman & CEO of CTT - Correos de Portugal, Chairman of Banco CTT, Chairman of CTT Expresso, Presidente de Tourline Express, Chairman of Cotec Portugal.

Total number of independent directors	5
% of the board	45.45%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration,

- or who maintain or have maintained during the period in question a business relationship with the company
- or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Maria Helena Revoredo Delvecchio, has been Chairwoman of Prosegur, and an independent Director at Endesa since 4 November 2014.

Maria Helena Revoredo performs her functions as an independent director of ENDESA S.A. without prejudice to the possible commercial relationship between the Prosegur and Endesa Groups.

In this connection, during 2017, the Prosegur Group formally arranged a security and surveillance service provision agreement with Group Endesa for the latter's facilities in Spain. The services were awarded by Endesa's Board of Directors, based on the results of the corresponding tender processes, without the involvement of Revoredo, pursuant to the legislation applicable to conflicts of interests. The agreement was approved for a term of one year, for an amount of Euros 0.69 million.

In any case, as part of these transactions it must be noted that: the nature of the service is ordinary; the service is provided under market conditions, as demonstrated in the external advisor report issued to this end; and pursuant to international good corporate governance practice criteria, the amount is not significant or material, as these amounts come to less than 1% of the income or billing volume of both companies.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

OTHER EXTERNAL DIRECTORS

The other external directors will be identified and the reasons listed why they cannot be considered proprietary or independent directors and details will be given of their relationships with the company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year.

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

	Number of female directors				% of total directors of each type			
	FY 2017	FY 2016	FY 2015	FY 2014	FY 2017	FY 2016	FY 2015	FY 2014
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	1	0	0	0	25.00%	0.00%	0.00%	0.00%
Independent	1	1	1	1	20.00%	20.00%	20.00%	33.33%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	2	1	1	1	18.18%	9.09%	9.09%	11.11%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

On 10 November 2015, the Board of Directors approved a specific and attestable Policy for Selecting Directors, which aims for the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, financial and economical, and legal), also promoting, insofar as possible, diversity of age and gender.

Particularly, with regard to gender diversity, the Company's Policy for Selecting Directors establishes the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

In this connection, the recent inclusion of Maria Patrizia Grieco on the Board of Directors at Endesa has increased the percentage of female directors from 9% to 18%.

C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

Endesa is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key element of its corporate governance strategy.

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximizing the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the organization, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the Policy for Selecting Directors will promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

Selection process:

The Appointments and Remuneration Committee will base its proposals for appointing, ratifying or re-electing on the outcome of an objective, attestable and transparent selection process, which will start with a preliminary analysis of the requirements of the Board of Directors, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, taking the integration of different management and professional experiences and skills as the goal, and promoting diversity of knowledge, experiences and gender, considering the weight of the different activities performed by Endesa and taking into account those areas or sectors that must be the object of specific promotion, such as information technologies.

When analyzing candidates, the Appointments and Remuneration Committee, based on the needs of the Board of Directors and the requirements that the Board's internal committees may have on an individual or joint basis, will assess the following elements:

- i) the candidates' professional and technical skills. As a whole, directors must fulfil the knowledge required of the activities undertaken by the Company, in terms of economic and financial aspects, accounting, audit, internal control and business risk management aspects, amongst others.
- ii) the candidates' management experience, also taking into account the context in which Endesa operates;
- iii) the commitment required for performing the role, also assessing the roles already performed by the candidates in other companies;
- iv) the possible existence of conflicts of interest;
- v) the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also

vi) possible pending procedures, against the candidates, and also any criminal sentences or administrative penalties that the competent authorities may have imposed on them.

In the case of candidates for independent director, the Appointments and Remuneration Committee will especially verify compliance with the requirements for independence established by Law.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who assume a commitment of sufficient dedication for the performance of the tasks inherent therein.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of reasons

Not applicable

C.1.6 (2) Explain the conclusions of the appointments committee on the verification of compliance with the Policy for Selecting Directors. And, in particular, on how this policy is promoting the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

Explanation of conclusions

At its meeting on 18 December 2017, the Appointments and Remuneration Committee unanimously agreed, in terms of verifying the compliance of the policy for selecting candidates for the office of director, that the composition of the Board of Directors, in terms of number of members, structure and the professional experience and skills of its members, is currently appropriate based on the needs of the Company and in line with best corporate governance practices.

On 26 April 2017, María Patrizia Grieco was chosen by the method of co-option as a member of the Board of Directors at Endesa, S.A. as an external proprietary director.

Endesa is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key element of its corporate governance strategy. This appointment is a testament to Endesa's dedication to promoting the participation and development of women in the Organization, especially in leadership positions and, in particular, on the Board of Directors and to fulfilling the objective of female directors accounting for at least 30% of Board members by 2020.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

70,101% of Endesa's share capital is held by a single shareholder, the company ENEL IBERIA, S.R.L. The Italian company Enel, S.p.A holds 100% of the shares (and the voting rights) of ENEL IBERIA, S.R.L.

In this connection, the Board of Directors at Endesa, S.A. consists of eleven members: five independent directors, four proprietary directors (representatives of Enel, S.p.A.), and two executive directors (Chairman and Chief Executive Officer), who were appointed to their posts with Enel, S.p.A. as the controlling shareholder.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes

No X

C.1.9 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director.

Name of director:

LIVIO GALLO

Reasons for resignation:

The Proprietary Director, Livio Gallo, submitted his resignation as member of the Board of Directors at Endesa S.A. on personal grounds, in writing to the Board of Directors on 21 April 2017.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

Name or corporate name of Director: JOSE

DAMIAN BOGAS GALVEZ

Brief Description:

Since 7 October 2014, the Board of Directors has delegated all powers of the Board that could be delegated legally and as per the bylaws to the Chief Executive Officer.

The Chief Executive Officer of Endesa, S.A., José Damián Bogas Gálvez, shall exercise all powers delegated to him jointly with the Executive Committee of the Board of Directors, as applicable.

C.1.11 List the Directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group.

Name or corporate name of Director	Corporate name of the group company	Position	Performs executive duties?
JOSE DAMIAN BOGAS GALVEZ	Endesa Generación II	Joint director	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of Director	Corporate name of the group company	Position
IGNACIO GARRALDA RUIZ DE VELASCO	BOLSAS Y MERCADOS ESPAÑOLES SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A.	VICE CHAIRMAN
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEDIASET ESPAÑA COMUNICACIÓN S.A.	CHAIRMAN
HELENA REVOREDO DELVECCHIO	PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A.	CHAIRMAN

Name or corporate name of Director	Corporate name of the group company	Position
HELENA REVOREDO DELVECCHIO	MEDIASET ESPAÑA COMUNICACIÓN S.A.	DIRECTOR
MIQUEL ROCA JUNYENT	ACS. S.A.	DIRECTOR
FRANCISCO DE LACERDA	CTT CORREOS DE PORTUGAL	VICE CHAIRMAN
IGNACIO GARRALDA RUIZ DE VELASCO	CAIXABANK, S.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	ANIMA HOLDING, S.P.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	FERRARI, N.V.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	AMPLIFON S.P.A.	DIRECTOR
MS. MARIA PATRIZIA GRIECO	CIR S.P.A.	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes X

No

Explanation of rules
Article 10 of the Board Regulations establishes Incompatibilities for Directors and stipulates that any individual sitting on more than four boards of directors of listed companies, or eight organizations in total (including listed and unlisted companies), may not be appointed as a Director of the Company, considering that membership on various boards of directors for companies within the same group shall, for these purposes, count as one board for each group of companies. In addition, for these purposes, any board of directors on which the Director sits shall not count when said board is that of a company that may submit abbreviated balance sheets and statements of changes in net equity or which is a holding company or a mere financial vehicle corporation.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the board of directors in the year.

Remuneration paid to the board of directors (thousands of Euros)	6,651
Amount of pension rights accumulated by current directors (thousands of Euros)	12,815
Amount of pension rights accumulated by former directors (thousands of Euros)	3,464

C.1.16. List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position
MR. JUAN MARÍA MORENO MELLADO	GENERAL MANAGER NUCLEAR
FRANCISCO BORJA ACHA BESGA	GENERAL SECRETARY AND SECRETARY OF THE BOARD OF DIRECTORS AND GENERAL MANAGER LEGAL AFFAIRS
MR. JAVIER URIARTE MONEREO	GENERAL MANAGER MARKETING
PABLO AZCOITIA LORENTE	GENERAL MANAGER PROCUREMENT
MARÍA MALAXECHEVARRÍA GRANDE	GENERAL MANAGER SUSTAINABILITY
ALVARO QUIRALTE ABELLO	GENERAL MANAGER ENERGY MANAGEMENT
JOSÉ LUIS PUCHE CASTILLEJO	GENERAL MANAGER RESOURCES
ALBERTO FERNÁNDEZ TORRES	GENERAL MANAGER COMMUNICATION
MANUEL MARÍN GUZMÁN	GENERAL MANAGER ICT
MR. ENRIQUE DE LAS MORENAS MONEO	GENERAL MANAGER RENEWABLE ENERGY
JOSÉ CASAS MARÍN	GENERAL MANAGER INSTITUTIONS AND REGULATION

Name or corporate name	Position
MANUEL MORAN CASERO	GENERAL MANAGER GENERATION
MR. PAOLO BONDI	GENERAL MANAGER ADMINISTRATION, FINANCE AND CONTROL
ANDREA LO FASO	GENERAL MANAGER HR AND ORGANISATION
FRANCESCO AMADEI	GENERAL MANAGER INFRASTRUCTURE AND NETWORKS
MR. LUCA MINZOLINI	GENERAL MANAGER AUDIT
MR. JOSEP TRABADO FARRÉ	E-SOLUTIONS GENERAL MANAGER

Total remuneration received by senior management	12,444

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position
JOSE DAMIAN BOGAS GALVEZ	ENEL IBERIA SRL	DIRECTOR
MR. BORJA PRADO EULATE	ENEL IBERIA SRL	DIRECTOR
FRANCESCO STARACE	ENEL, S.P.A.	CHIEF EXECUTIVE OFFICER
FRANCESCO STARACE	ENEL IBERIA SRL	CHAIRMAN
ENRICO VIALE	CESI	DIRECTOR
ENRICO VIALE	ENEL AMERICAS, S.A.	DIRECTOR
ALBERTO DE PAOLI	ENEL GREEN POWER, S.P.A.	CHAIRMAN
MS. MARIA PATRIZIA GRIECO	ENEL, S.P.A.	CHAIRMAN
ENRICO VIALE	ENEL GLOBAL THERMAL GENERATION SRL	DIRECTOR
ENRICO VIALE	SLOVAK POWER HOLDING	DIRECTOR

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of linked director: ENRICO

VIALE

Name or corporate name of linked significant shareholder: ENEL,
S.p.A.

Description of relationship:
Manager of Thermal Generation

Name or corporate name of linked director: ALBERTO

DE PAOLI

Name or corporate name of linked significant shareholder: ENEL,
S.p.A.

Description of relationship:

C.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year.

Yes X

No

Description of amendments
Primarily on account of the new EU and Spanish regulations on account auditing, the recently passed Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and the approval of the "Technical Guide 3/2017: On audit committees at public-interest entities" (the "Technical Guide") by the Spanish National Securities Market Commission on 27 June 2017, the Board Regulations have been amended to adapt its content to these rules and documents and thus introduce specific technical improvements and to bring them into line with other internal regulations at the Company. The main changes made can be consulted below: - Title One: Removal of the subsidiary assignment of all powers that do not correspond to the General Shareholders' Meeting to the Board of Directors has been proposed, in light of the legal assignment of powers established in the Law concerning the Board's internal committees. Different express references to non-financial information have been included, pursuant to the provisions of Royal Decree-Law No. 18/2017, of 24 November, on non-financial information. The ability to create Advisory Committees has been removed. - Title Three: Technique and drafting improvements have been included in matters affecting "Director Incompatibilities". - Title Six: Article 23, on the Audit and Compliance Committee, has experienced the most changes, fundamentally in order to adapt to the Spanish National Securities Market Commission's Technical Guide. Thus, firstly, the system in terms of the composition of the Committee has been changed (given that, based on the legal requirements, it must be made by for the large part of independent directors, rather than at least two) and the knowledge and experience of members (both individually and the Committee as a whole). Likewise, the sections on the main functions of the Committee have been changed (which shall be to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the independence of the auditor and the efficiency of internal risk control and management systems, in addition to informing the Board of Directors of operations with related parties) and the regulation of the Committee's specific functions, with the wording simplified to include further details in the Audit and Compliance Committee Regulations and to adapt its content to the Technical Guide and actual organizational and functional structure of the Company. Finally, it has been established that attendance of senior management and employees at Committee meetings shall be subject to prior invitation by the Chairman of the Committee. - Title Seven: Technique and drafting improvements have been included in matters affecting "Director Disclosure Requirements". Specifically, a new article 28 bis has been included, with the heading "Disclosure requirements", which will comprise different sections of the Regulation which up until now had been contained in other articles. - Title Ten: Article 31 modifies paragraph 2 to specify that the Board of Director's supervision of information systems for the different groups of shareholders shall be undertaken by the Audit and Compliance Committee.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Selection: in addition to its other duties, the Appointments and Remuneration Committee (hereinafter CNR) is tasked with assessing the skills, knowledge and experience needed on the Board of Directors. To this end, it will define the functions and skills required by the candidates to cover each vacancy and assess the time and dedication needed to adequately perform their duties, ensuring, in particular, that non-executive board members have sufficient time available to correctly perform their duties and raise proposals to appoint independent directors to the Board of Directors and report on the proposals of other directors. In line with the policy for selecting candidates for the office of director, the CNR will base its proposals for appointing, ratifying or re-electing on the outcome of an objective, attestable and transparent selection process, which will start with a preliminary analysis of the requirements of the Board of Directors, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, taking the integration of different management and professional experiences and skills as the goal, and promoting diversity of knowledge, experiences and gender, considering the weight of the different activities performed by Endesa and taking into account those areas or sectors that must be the object of specific promotion, such as information technologies.

When analyzing candidates, the CNR, based on the needs of the Board of Directors and the requirements that the Board's internal committees may have on an individual or joint basis, will assess the following elements:

- the candidates' professional and technical skills. As a whole, directors must fulfil the knowledge required of the activities undertaken by the Company, in terms of economic and financial aspects, accounting, audit, internal control and business risk management aspects, amongst others.
- the candidates' management experience, also taking into account the context in which Endesa operates;
- the commitment required for performing the role, also assessing the roles already performed by the candidates in other companies;
- the possible existence of conflicts of interest;
- the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also

vi) possible pending procedures, against the candidates, and also any criminal sentences or administrative penalties that the competent authorities may have imposed on them.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who assume a commitment of sufficient dedication for the performance of the tasks inherent therein.

To select candidates, the CNR may request the services of one or more external consultants specializing in the search for and selection of candidates with a view to enhancing the efficiency, effectiveness and impartiality of procedures for identifying candidates.

- Appointment: The General Shareholders' Meeting is responsible for both appointing and removing members of the Board of Directors. In the event of vacancies arising on the Board of Directors, the same shall appoint Directors, following a report by the Appointments and Remuneration Committee, until the next General Shareholders' Meeting is held.

- Re-election: The term of office of Directors shall be four years and they may be re-elected for periods of like duration.

The proposed re-election of Directors made by the Board of Directors to the General Shareholders' Meeting shall be made at the proposal of the Appointments and Compensation Committee, in the case of Independent Directors, and following a report by said Committee for all other types of Directors.

- Evaluation: Each year, the Board of Directors shall assess the quality and efficiency of the Board's operation following a report from the Appointments and Remuneration Committee, the performance of their duties by the Chairman of the Board and by the Chief Executive Officer, based on the report from the Appointments and Compensation Committee, and the operation and composition of its Committees and of the Executive Committee, as the case may be, in view of the report submitted thereto by said Committees.

The Board of Directors shall propose, based on the results of the assessment, an action plan to correct any identified deficiencies. The results shall be included in the meeting minutes or as an attachment thereto. Every three years, the Board of Directors shall be assisted in carrying out an assessment by an independent external consultant, whose independence will be verified by the CNR.

- Removal: The position of Director may be renounced and revoked. The term of office of Directors shall be four years. The General Shareholders' Meeting is responsible for removing members of the Board of Directors. Furthermore, and prior thereto, the CNR shall be responsible for proposing or informing the Board of Directors of the removal of a Board member, with reference to Independent Directors or other categories of Directors, respectively, when: their remaining on the Board of Directors may impair the credit and reputation of the Company, or they are subject to any instance of incompatibility or prohibition, or the shareholders that they represent transfer their equity stake in its entirety, or reduce it.

C.1.20 Explain to what extent the Board's annual evaluation has prompted significant changes in its internal organization and the procedures applicable to its activities.

Description of amendments
As a result of the annual evaluation process on the functioning of the Board and of its Committees in 2017, no changes have been made to the internal organization of the Board of Directors or its Committees, nor to the procedures applicable to their activities.

C.1.20 (2) Describe the evaluation process and the areas evaluated by the Board of Directors aided, where applicable, by an external consultant, with regard to diversity in its composition and powers, the operation and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

In October 2017, the start of the Endesa S.A. Board of Directors self-assessment process was agreed upon, complying with art. 529 (9) LSC and recommendation 36 of the Good Governance Code for CNMV Listed Companies, which states that the Plenary of the Board of Directors must evaluate and adopt, where applicable, an action plan once a year, to correct any deficiencies detected, regarding:

- The quality and efficiency of the functioning of the board of directors.
- The operation and composition of its committees.
- Diversity in the composition and powers of the Board of Directors.
- The performance of their duties by the chairman of the board of directors and by the company's chief executive officer.
- The performance and contribution of each director, paying special attention to the managers of the Board's different committees.

The 2017 assessment was performed without the involvement of an external consultant (the 2015 assessment was performed with assistance from KPMG).

The evaluation process has involved the following different aspects:

- Assessment and self-assessment of members of the Board of Directors, the Audit Committee (including the evaluation of all Board members), the Appointments and Remuneration Committee, the Chairman of the Board, the Chief Executive Officer and the Secretary of the Board of Directors.
- Creation of a report with the responses to the questions posed and a spreadsheet containing the aspects most and least valued by Directors. Furthermore, the report shall include a comparison with the results obtained during the previous year.
- Improvement actions to be implemented in 2018, for the purpose of correcting deficiencies detected.

C.1.20 (3) List, where applicable, the business relationships that the consultant or any company in its group maintains with the Company or any Group company.

C.1.21. Indicate the cases in which Directors must resign.

Directors must resign in the events described in article 12.2 of the Board of Directors' Regulations.

In this connection, Directors must tender their resignation in the following circumstances: their remaining on the Board of Directors may impair the credit and reputation of the Company, or they are subject to any instance of incompatibility or prohibition provided for by law or in the Bylaws or Regulations of the Board of Directors.

Furthermore, Independent Directors must tender their resignation, when just cause is found by the Board of Directors, following a report by the Appointments and Remuneration Committee, and Proprietary Directors when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors will be reduced.

Finally, in the event that a Director ceases in his position, whether due to resignation or otherwise, prior to the end of his mandate, he must explain the reasons in a letter to be sent to all Board members. Without prejudice to said removal being reported as a significant event, a report must be given on the reason for the removal in the Annual Corporate Governance Report .

C.1.22 Section revoked.

C.1.23 Are qualified majorities, other than those prescribed by law, required for any type of decisions?

Yes

No X

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman.

Yes

No X

C.1.25 Indicate whether the Chairman has the casting vote.

Yes X

No

Matters where the chairman has the casting vote

In accordance with what is established in article 47 of the bylaws, "Resolutions shall be adopted by absolute majority of the Board Members who, present or represented, are in attendance at the meeting. In the event there is an equal number of votes, the Chairman, or whosoever substitutes him or her at the meeting, will cast the decisive vote. The provisions of this section shall be applicable without prejudice to those resolutions for which a qualified majority of the Board Members is required in accordance with these Corporate Bylaws or current laws in force."

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

Yes

No X

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors.

Yes

No X

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been stipulated regarding the categories that can be appointed proxy, other than any limitations imposed by law. If so, give brief details.

Article 45 of the Company Bylaws and article 20.2 of the Board of Directors' Regulations state that each director may grant a proxy to another member of the Board of Directors. Proxies shall be granted in writing and specifically for each Board Meeting. No director may hold more than three proxies, with the exception of the Chairman, to whom this limit shall not apply, although he may not represent the majority of the Board of Directors. Non-Executive Directors may only delegate their proxy to another non-executive.

C.1.29 Indicate the number of Board meetings held during the year and how many times the board has met without the chairman in attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	12
Number of board meetings held in the absence of the chairman	0

If the chairman is the executive director, indicate the number of board meetings held in the absence and without representation on behalf of any executive director and chaired by the coordinating director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Committee	Number of meetings
Audit and Compliance Committee	11
Appointments and Remuneration Committee	8
Executive Committee	0

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings attended by all directors	12
% of attendances of the total votes cast during the year	100.00%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes X

No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorization for issue by the board.

Name	Position
MR. JOSE DAMIAN BOGAS GALVEZ	CHIEF EXECUTIVE OFFICER
MR. PAOLO BONDI	GENERAL MANAGER - ADMINISTRATION, FINANCE AND CONTROL

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The main function of the Audit and Compliance Committee is to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the independence of the auditor and the efficiency of internal risk control and management systems, in addition to informing the Board of Directors of operations with related parties.

The Audit and Compliance Committee, in terms of the process of creating economic-financial and non-financial information, has the following duties:

- To monitor the preparation and the presentation of the Company's required financial information and, where appropriate, the Group, and submit recommendations or proposals to the Board of Directors, with a view to safeguarding its integrity.

- Regularly revise, analyse and comment financial statements and other relevant non-financial information with management, internal auditing, the external auditor, or, as applicable, an audit firm.

- Assess, considering the different sources of information available, whether the Company has correctly applied accounting policies and use its own judgement to reach a conclusion.

- Assess, considering the different sources of information available, whether the Company has correctly applied accounting policies and use its own judgement to reach a conclusion.

- Inform the Board of Directors on the veracity, integrity and reliability of regulated financial information that, given its status as a listed company, the Company must publish on a periodic basis:

- a) annual financial report that covers financial statements and separate management reports for the Company and the consolidated Group, revised by the auditor.

- b) half-yearly financial report on the first six months of the year, that covers the condensed financial statements and the separate interim management reports for the Company and the consolidated Group.

- c) interim statements concerning the first and third quarters of the year, containing an explanation of the significant events and operations that have occurred during the period between the start of the financial year and the end date of each quarter, in addition to a general statement on the financial position and results of the Company and its consolidated Group.

- Monitor the efficiency of the internal control of the Company's financial information, including the receipt of reports from those responsible for internal control and internal auditing and reaching a conclusion on the reliability and feasibility of the system, informing the Board of Directors accordingly, and discussing significant weaknesses in the internal control system detected during the audit with the External Auditor. To this end, and as applicable, the Audit and Compliance Committee may submit recommendations or proposals to the Board of Directors, along with the corresponding follow-up period.

Likewise, the Audit and Compliance Committee, in terms of the account auditor:

- ensure that the remuneration of the External Auditor for his work does not compromise its quality or its independence, verifying the limits on the concentration of the auditor's business.

- oversee compliance with the audit agreement, regularly receiving information on the audit plan and results thereof from the External Auditor, in addition to any other aspects relating to the audit process.

To undertake its supervision functions, the Audit and Compliance Committee may perform a final assessment on the auditor's performance and how it has contributed to the quality of the audit and integrity of financial information.

If, having performed the auditor assessment, the Audit and Compliance Committee believes there are aspects that are cause for concern or unresolved in terms of the quality of the audit, the Committee shall assess the possibility of informing the Board of Directors and, if deemed appropriate, will inform supervisory authorities as applicable.

Throughout the process, and in compliance with the recommendation 42.2 d) of the Code of Good Governance for listed companies and the provisions of article 33 of the Board of Directors' Regulations, the Audit and Compliance Committee has an ongoing objective and professional relationship with the Company's accounts auditor, in respect of its independence, and agrees to provide all information said auditor may need in order to perform its tasks. For this purpose, in 2017, Ernst & Young, S.L. attended various meetings with the Audit and Compliance Committee to report on the following points:

- The Audit of the Consolidated Financial Statements of ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- The Audit of the Individual Financial Statements of ENDESA, S.A. for the year ended 31 December 2017, prepared in accordance with the Spanish General Chart of Accounts.
- The agreed procedures relating to information for the Internal Control over Financial Reporting ("ICFR") system.
- Limited review of the Financial Information of ENDESA, S.A. and Subsidiaries for the period ended 30 June 2017, prepared in accordance with International Financial Reporting Standards as adopted by the European Union

- Under the audit plan, a report was issued on the new Audit Report for Consolidated Financial Statements (applicable in 2017), in accordance with the legal reforms introduced by the European Union, the new Spanish Audit Law, and International Audit Standards applied in Spain (IAS-ES), in addition to the new Additional Reporting requirements for the Audit and Compliance Committee.

C.1.33. Is the Secretary of the board also a Director?

Yes

No X

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
FRANCISCO BORJA ACHA BESGA	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Pursuant to Article 52 of the Bylaws and the Audit and Compliance Committee Regulations, the main task of the Audit and Compliance Committee (hereinafter, CAC) is to promote compliance with good corporate governance and ensure the transparency of all actions of the Company in the economic and financial area and external and compliance audits and internal audits and, therefore, it shall:

- Liaise with external auditors in order to receive information on all matters which may place at risk their independence, for examination by the Committee, and any others related to the procedures concerning the audit of the accounts and, when applicable, authorize services other than those prohibited, under the terms set out in the applicable regulations, on independence, as well as those communications as provided by account auditing laws and technical auditing standards.

- Supervise the efficiency of the Company's internal control, internal auditing and risk management systems, and also discuss, with the auditor, the significant weaknesses of the internal control system detected while performing the audit, all without compromising its independence. To this end, and as applicable, recommendations or proposals may be submitted to the Board of Directors, along with the corresponding follow-up period.

- Monitor the preparation and the presentation of the required financial information, and submit recommendations or proposals to the Board of Directors, with a view to safeguarding its integrity.

- Make recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the auditor of accounts, assuming responsibility for the selection process, as set out in the applicable regulations, and the terms of his or her engagement, and receive regular information from him or her on the progress and findings of the audit programme, besides preserving independence in the exercise of his or her duties.

In any case, the Audit and Compliance Committee shall also receive annually from the external auditors a statement of their independence vis-à-vis the Company and/or entities directly or indirectly related to the Company, as well as detailed and separate information on the additional services of any type rendered and the corresponding fees received from these entities by the external auditor or by persons or entities related to him or her, in accordance with the provisions of audit regulations. Furthermore, as much information as possible should be sought from the Administration, Finance and Control Department, the Internal Audit Department and the auditor himself in terms of the independence of the auditor of accounts.

Moreover, there is no relationship other than that derived from professional activities with financial analysts, investment banks and credit rating agencies.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes

No X

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes X

No

	Company	Group	Total
Amount of non-audit work (in thousands €)	757	679	1,436
Amount of non-audit work as a % of the total amount billed by the audit firm	29.94%	42.20%	34.71%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes

No X

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	7	7
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	18.92%	23.33%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes X

No

Details of the procedure
Article 29 of the Board of Directors' Regulations governs the right to advice and information: The Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advising required in relation to any matter. The right to information extends to investees. The request will be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer. Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for such explanations as it sees fit. Said request shall be made by the Chairman through the Board Secretary and shall be conveyed by the Chief Executive Officer.

The majority of the Directors and the Coordinating Director may make proposals to the Board regarding the engagement, at the Company's expense, of such legal, accounting, technical, financial, commercial or other advisers as they consider necessary in order to assist them in performing their duties as related to specific problems of a certain importance and complexity related to the performance of their work.

The above proposal must be notified to the Company Chairman through the Board Secretary and will be conveyed by the Chief Executive Officer. The Board may refuse to approve financing for the advisory services referred to in the preceding paragraph on the grounds that they are not necessary for the performance of the functions entrusted, that their amount is disproportionate to the importance of the problem, or if it considers that such technical assistance could be adequately provided by Company personnel.

The Company shall establish an orientation programme which shall provide new Directors with speedy and sufficient knowledge of the Company, as well as of its rules of corporate governance. In addition, it shall also offer Directors knowledge recycling programmes when circumstances so advise.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes X

No

Details of the procedure

The Board of Directors' Regulations stipulate that the call to meeting of the Board shall be made with the required notice, at least 48 hours before the date set for the meeting, to each of the directors and shall include the agenda, clearly identifying the items on which the Board of Directors shall make a decision or adopt a resolution so that the directors may study or gather, in advance, the information required to make such decisions. Likewise, the minutes of the preceding meeting shall be attached.

Directors have an IT application to handle documents from Board meetings and Committee meetings online, facilitating the right to information and availability and access thereto.

In line with the Board of Directors Regulations, Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advising required in relation to any matter. The right to information extends to investees. The request will be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for such explanations as it sees fit. Said request shall be made by the Chairman through the Board Secretary and shall be conveyed by the Chief Executive Officer.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organization's name or reputation, tendering their resignation as the case may be.

Yes X

No

Details of rules

The Directors must present their resignation to the position and formalize their resignation when they incur in any of the assumptions established in article 12.2 of the Regulations of the Board of Directors and in particular "the Directors must place their position at the disposal of the Board of Directors when their stay in the Board of Directors Administration may harm the credit and reputation of the Company. "

Likewise, pursuant to article 28.bis of the Board of Directors' Regulations, Directors shall notify the Company, via the Board Secretary, of the start of any type of criminal investigation or proceedings, in Spain or abroad, in which they are involved, as well as of all developments related thereto. The Audit and Remuneration will analyze the information available, presented by the Director, via the Secretary, to determine whether this event could damage the Company's credit or reputation.

In cases where the criminal investigation or proceedings leads to a Director being indicted or tried for any of the crimes stated in company law, the Board of Directors shall examine the matter as quickly as possible and, after reporting to the Appointments and Remuneration Committee, decide on the course of action that is most suitable for the Company's interests. In the event that the criminal proceedings take place in a jurisdiction outside of Spain, similar concepts and legal categories to those set down in Spanish law shall be applied.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Corporate Enterprises Act (LSC).

Yes

No X

Indicate whether the Board of Directors has examined the matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

At 31 December 2017, ENDESA, S.A. has loans and other borrowings from banks and ENEL Finance International, N.V. of approximately 5,738 million Euros, with an outstanding debt of 3,738 million Euros, which might have to be repaid early in the event of a change of control over ENDESA, S.A. Furthermore, certain ENDESA subsidiaries that operate in the renewable energy business, and which are financed through project finance have financial debt of 159 million Euros, in addition to associated derivatives with a negative net market value of 12 million Euros, which might have to be settled early as a result of a change of control over ENDESA.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other operation.

Number of beneficiaries: 25

Type of beneficiary:

Executive directors, senior executives and

executives **Description of resolution:**

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

Furthermore, ENDESA's Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

The regime for these clauses is as follows.

Termination of the employment relationship:

-By mutual agreement: termination benefit equal to an amount from 1 to 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy established that when new directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

-At the unilateral decision of the executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other cases for compensation for termination provided for in Royal Decree 1382/1985.

-As a result of termination by the Company: termination benefit equal to that described in the first point.

-At the decision of the Company based on the serious willful misconduct or negligence of the executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

Post-contractual non-competition clause: In the vast majority of contracts, senior executives are required not to engage in a business activity in competition with ENDESA for a period of two years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

Indicate whether these agreements must be reported to and/or authorized by the governing bodies of the company or its group.

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	Yes	No

	Yes	No
Are the shareholders informed of such clauses at the General Shareholders' Meeting?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors.

Audit and Compliance Committee

Name	Position	Category
IGNACIO GARRALDA RUIZ DE VELASCO	CHAIRMAN	Independent
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
HELENA REVOREDO DELVECCHIO	MEMBER	Independent
FRANCISCO DE LACERDA	MEMBER	Independent
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

The Audit and Compliance Committee, hereinafter CAC, will comprise a minimum of three and a maximum of six members of the Board of Directors. It shall be exclusively comprised of non-executive directors, the majority of which should be independent directors. Members of the CAC shall serve a term of office of four years and they may be re-elected for periods of like duration. The appointment of members of the CAC shall be based on their knowledge and experience in accounting, auditing, finance, internal control and risk management, in addition to appropriate training in corporate governance and corporate social responsibility. As a whole, members of the Committee shall have relevant technical knowledge in terms of the electricity and gas industry to which the Company belongs.

The Chairman of the Audit and Compliance Committee shall be appointed by the Board of Directors from the independent directors sitting on the Committee, bearing in mind their knowledge and experience in accounting, auditing or risk management. The Chairman must be substituted every four years and may be re-elected after one year after his vacating office has lapsed. The CAC will meet as often as convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors. Committee meetings will be validly assembled when the majority of the Committee members attend in person or by proxy. Resolutions must be adopted with the favorable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman will have the casting vote.

The Secretary of the Committee shall be the same as the Secretary of the Board of Directors who will draft the minutes of the resolutions passed thereat and the Board will be informed of these resolutions.

The main functions of the Committee shall be to advise the Board of Directors and supervise and control the creation and presentation of financial and non-financial information, the selection, appointment and independence of the auditor and the efficiency of internal risk control and management systems, oversee internal audit services, supervise the communication strategy and relationship with shareholders and investors, oversee compliance with corporate governance rules, revise the corporate social responsibility policy and monitor the corresponding strategy and practices, in addition to informing the Board of Directors of operations with related parties. These duties will be deemed to be without limitation and without prejudice to such other duties by law and as may be entrusted to the Committee by the Board of Directors.

The most important actions undertaken by the Committee in 2017 were to inform the Board on the Company's financial information, supervise the internal risk control and management systems, inform the Board on the change to internal regulations and action plans to improve corporate governance practices, in line with the content of the CNMV Guide on audit committees at public-interest entities, obtain the "Criminal Risk Prevention Model" certificate, approve Endesa's criminal and anti-bribery regulatory compliance policy, information on the disclosure of non-financial information and information to the Board in terms of operations with related parties, amongst others.

Identify the director who is a member of the Audit Committee and has been appointed in consideration of his or her knowledge and experience in the area of accounting, auditing or both an report on the number of years that the Chairman of this committee has held the position.

Name of director with experience	IGNACIO GARRALDA RUIZ DE VELASCO
No. of years chairman in role	1

Appointments and Remuneration Committee

Name	Position	Category
MIQUEL ROCA JUNYENT	CHAIRMAN	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
HELENA REVOREDO DELVECCHIO	MEMBER	Independent
FRANCISCO DE LACERDA	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

The Appointments and Remuneration Committee, hereinafter CNR, shall be formed by a minimum of three and a maximum of six non-executive members of the Board of Directors, at least two of whom must be independent directors.

The Chairman of the Appointments and Remuneration Committee shall be appointed by the Board of Directors from among its independent Directors.

The CNR will meet as often as convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors. Committee meetings will be validly assembled when the majority of the Committee members attend in person or by proxy.

Resolutions must be adopted with the favorable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman will have the casting vote.

The CNR may contract external consultancy services. The Secretary of the Committee shall be that of the Board of Directors who will draft the minutes of the resolutions passed thereat and the Board will be informed of these resolutions.

The Appointments and Compensation Committee shall have the following duties:

Assess the capacities, knowledge and experience required on the Board of Directors in order to submit proposals to the Board on the selection, appointment, re-election and removal of members of the Board; propose members to sit on the Executive Committee and each of the Committees and report on the proposed appointment and removal of senior managers, the basic conditions of their contracts and payment; propose the adoption of remuneration systems for senior management in addition to proposing the Director remuneration policy to the Board of Directors, in addition to the individual remuneration and other contract terms for Executive Directors; establish a gender representation target for the Board of Directors and examine and organize the succession plan for the Chairman of the Board of Directors and the CEO, amongst others.

The main action taken by the Committee in 2017 was as follows: report on the proposed appointment of Ms. Grieco as a Proprietary Director; the re-election of Independent Directors; the creation of the E-Solutions Department and the associated appointment; remuneration for the Executive Management Committee; variable remuneration of senior management; the annual report on Director remuneration; compliance with the policy for selecting candidates for the office of director and amendments thereto; the evaluation of the Committee and Board for 2016 and the Annual Committee Activity Report, amongst others.

Executive Committee

Name	Position	Category
MR. BORJA PRADO EULATE	CHAIRMAN	Executive
JOSE DAMIAN BOGAS GALVEZ	MEMBER	Executive
FRANCESCO STARACE	MEMBER	Proprietary
MR. ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of executive directors	28.57%
% of proprietary directors	28.57%
% of independent directors	42.86%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational rules and procedures of the same and summarize its most important actions during the year.

Article 22 of the Board of Directors' Regulations, which regulates the composition and operating system of the Executive Committee, in the first place, establishes its optional nature, and also establishes the following organizational and operational rules:

The Executive Committee, if any, shall consist of a minimum of five and a maximum of seven Directors, including the Chairman and the Chief Executive Officer. The Chairman of the Board of Directors will chair the Executive Committee and the Secretary of the Board of Directors will act as such on the Executive Committee. The rules on substituting such officers shall be as stipulated for the Board of Directors.

The composition of the Executive Committee shall reasonably reflect the structure of the Board. The Executive Committee shall have the power to adopt resolutions related to the powers delegated thereto by the Board as well as all other resolutions which, in the event of emergency, may need to be adopted.

Members of the Executive Committee shall be appointed by proposal of the Appointments and Compensation Committee and shall require the favorable vote of at least two thirds of the Board members.

Resolutions of the Executive Committee on matters for which it has been delegated powers by the Board shall be implemented as soon as they have been adopted. However, in cases where, in the opinion of the Chairman or of the majority of the members of the Executive Committee, the importance of the matter so advises, the resolutions of the Executive Committee will be submitted for subsequent ratification by the Board.

The Secretary of the Executive Committee shall be that of the Board of Directors and will draft minutes of the resolutions passed and inform the Board of the same. The minutes must be available to all Board members. It must be highlighted that the Executive Committee did not meet in 2017.

Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different categories of Director.

Yes X

No

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	1	16.65%	1	16.65%	1	16.65%	1	20.00%
Appointments and Remuneration Committee	1	16.65%	1	16.65%	1	20.00%		
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee is regulated by the Bylaws and the Board of Directors' Regulations and the Audit and Compliance Committee Regulations. These regulations can be consulted on the Company's website www.endesa.com.

The Audit and Compliance Committee Regulations were amended in December 2017, in line with the new EU and Spanish account audit regulations, specifically Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and the approval of the "Technical Guide 3/2017: on audit committees at public-interest entities" (the "Technical Guide") by the Spanish National Securities Market Commission on 27 June 2017.

The main developments are outlined below:

- Changes concerning the knowledge and experience required from members of the Board (both individually and the Committee as a whole) have been included, and an orientation programme set up for new members, in addition to a permanent training plan.
- Express reference to the Committee's annual working plan has been introduced, which must address the specific objectives and an annual calendar of meetings.
- A minimum of 4 meetings must be held each year and at least one to coincide with each publication date of financial information.
- More detailed regulations have been introduced on the attendance of the internal and external auditor, with at least part of meetings with these individuals held without the Company's management being present, and offering the internal auditor direct, effective access to the Committee.

- The wording of articles on the Committee's functions has been changed to adapt their content to the provisions of Spanish and EU regulations on account auditing, Royal Decree-Law No. 18/2017, of 24 November, on non-financial information and, primarily, the Technical Guide of the Spanish National Securities Market Commission, in addition to the actual organizational and functional structure of the Company, in a way that is consistent with the proposed amendment of the Board of Directors' Regulations, which are also subject to Board approval.
 - A clause has been introduced in the Regulations that an opinion must be sought from other directors as part of the assessment of the Audit and Compliance Committee.
- The Audit Committee draws up, inter alia, the annual activity report for the Audit and Compliance Committee.

APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com. The Appointments and Remuneration Committee draws up an Activity Report each year.

EXECUTIVE COMMITTEE

The Executive Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com.

The Executive Committee did not meet in 2017.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedure for reporting the approval of related-party transactions

The procedure for approving operations with related parties is set out in Endesa's Operations with Related Parties Regulations. Procedure for requesting approval for operations linked to Directors:

1. Endesa Directors must request approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that they or their related parties intend to perform with Endesa or with any company in the Endesa Group, prior to performing it.
2. When the Secretary is also a Director and requests authorization, the request shall be forwarded to the Chairman of the Board of Directors.
3. The request shall state: (a) the Director or person related to the Director that is going to undertake the operation and the nature of the relationship. (b) The Endesa Group company with whom the operation will be undertaken. (c) The purpose, the value and the main terms and conditions of the operation. (d) The nature of the operation. (e) Any other information or circumstances that may be relevant in terms of assessing the operation.
4. Notwithstanding the provisions of section 1 above, senior managers who are aware of any potential operation linked to Directors or persons related thereto, shall inform General Secretary and the Board of Directors, and the General Manager of Administration, Finance and Control at Endesa.

Procedure for requesting approval for operations linked to significant shareholders:

1. Operations that Endesa or Endesa Group companies undertake with significant shareholders or persons related thereto must be approved by the Board of Directors, following a report from the Audit and Compliance Committee.
2. Endesa Group Senior Management must request approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that Endesa or any company in the Endesa Group intends to perform with significant shareholders or their related parties. Likewise, the Senior Management must inform the General Manager of Administration, Finance and Control at Endesa of this request.
3. The request shall state: (a) the significant shareholder or person related to the significant shareholder that is going to undertake the operation and the nature of the relationship. (b) The Endesa Group company with whom the operation will be undertaken. (c) The purpose, the value and the main terms and conditions of the operation. (d) The nature of the operation. (e) Any other information or circumstances that may be relevant in terms of assessing the operation.

Approval of the operation by the Board:

1. When the operation must be approved by the Board of Directors, the General Secretary and the Board of Directors shall ask the Audit and Compliance Committee to issue the corresponding report, submitting the information gathered to this effect.
2. The Audit and Compliance Committee will analyse this information and issue a report on the operation, for which purpose it may request any information it deems fit through the General Secretary and the Board of Directors. In accordance with the provisions of the Board of Directors' Regulations, the Audit and Compliance Committee may use any external advisors it deems fit to issue this report.
3. The Audit and Compliance Committee report will be submitted to the Board of Directors so that it may rule as appropriate in relation to authorising the transaction.
4. Under urgent circumstances for which due justification is provided, the CEO may approve the operation, which shall be ratified at the first Board meeting held after the decision is adopted.

Obligation of Directors to abstain from participating in decision-making:

Directors who are going to perform the operation or related to the party who is going to perform it or Directors who are also the significant shareholder affected or is related to the latter, and also any Directors who have been appointed at the request of the aforementioned significant shareholder or who, for any other reason, are affected by a conflict of interests must abstain from participating in the deliberation and voting on the agreement in question, so that the independence of the Directors approving the related-party operation is guaranteed in relation to the Directors affected by it.

In terms of related-party operations with Directors and those with significant shareholders, approval shall not required from the Board of Directors (although they must be reported to the General Secretary and Board of Directors) for related-party operations with Directors and related parties that also satisfy the following requirements: They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; They go through at market prices, generally set by the person supplying the goods or services; They are transactions of little relevance, being understood to be those whose information is not required to express a faithful rendering of Endesa assets, financial status and results. In any case, they may only be understood to be of little relevance if their amount is no more than one per cent of the Endesa's annual revenues.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (In thousand Euros)
ENEL IBERIA SRL	ASOCIACIÓN NUCLEAR ASCÓ-VANDELLÓS II	Contractual	Services rendered	53
ENEL IBERIA SRL	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Rendering of services	170
ENEL IBERIA SRL	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Property, plant and equipment purchases	9
ENEL IBERIA SRL	ENDESA FINANCIACIÓN FILIALES, S.A.	Contractual	Services rendered	72
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Operating lease agreements	830
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Rendering of services	335
ENEL IBERIA SRL	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Property, plant and equipment purchases	246,000
ENEL IBERIA SRL	ENDESA, S.A.	Contractual	Dividends and other distributions	989,347
ENEL IBERIA SRL	ENDESA, S.A.	Contractual	Management contracts	940
ENEL, S.P.A.	DISTRIBUIDORA ELÉCTRICA PUERTO DE LA CRUZ, S.A.	Contractual	Management contracts	13
ENEL, S.P.A.	EASA I	Contractual	Management contracts	16
ENEL, S.P.A.	EMPRESA CARBONÍFERA DEL SUR, S.A.	Contractual	Management contracts	25
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Management contracts	5,531
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Services rendered	1,759
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Purchase of finished goods and work in progress	85,478
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Rendering of services	131
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L.	Contractual	Property, plant and equipment purchases	1,785
ENEL, S.P.A.	ENDESA ENERGÍA XXI, S.L.	Contractual	Management contracts	70
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Management contracts	3,188
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Finance Leases	106
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Services rendered	108
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Purchase of finished goods and work in	212,691
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Rendering of services	446
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Sale of finished goods and work in	39,424
ENEL, S.P.A.	ENDESA GENERACIÓN PORTUGAL, S.A.	Contractual	Management contracts	26

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (In thousand Euros)
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Purchase commitments	64,955
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Interest charged	869
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Management contracts	1,804
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Services rendered	1,720
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Purchase of finished goods and work in	33,842
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Interest charged	826
ENEL, S.P.A.	ENDESA ENERGÍA, S.A.	Contractual	Other	83
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Other	242,370
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Interest paid	494
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Rendering of services	1,522
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Sale of finished goods and work in	2,900
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Property, plant and equipment	103,911
ENEL, S.P.A.	ENDESA INGENIERÍA, S.L.	Contractual	Management contracts	50
ENEL, S.P.A.	ENDESA INGENIERÍA, S.L.	Contractual	Rendering of services	610
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Management contracts	4
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Services rendered	27,500
ENEL, S.P.A.	ENDESA MEDIOS Y SISTEMAS, S.L.	Contractual	Rendering of services	97
ENEL, S.P.A.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L.	Contractual	Management contracts	13
ENEL, S.P.A.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L.	Contractual	Services rendered	272
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Management contracts	38
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Services rendered	745
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Rendering of services	34
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Financing agreements: loans	3,000,000
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Interest charged	92,175
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Management contracts	4,289
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Services rendered	6,763
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Partnership agreements	629
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Rendering of services	2,309
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Property, plant and equipment	1,415
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Management contracts	2,336
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Services rendered	846
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Rendering of services	8,759
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Interest paid	431
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Other	115
ENEL, S.P.A.	GENGAS Y ELECTRICIDAD GENERACIÓN, S.A.	Contractual	Management contracts	2,663
ENEL, S.P.A.	GENGAS Y ELECTRICIDAD GENERACIÓN, S.A.	Contractual	Rendering of services	20
ENEL, S.P.A.	INTERNATIONAL ENDESA B.V.	Contractual	Services rendered	120
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Interest charged	0
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Guarantees	114.000
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA	Contractual	Purchase commitments	52.700

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

D.5 Indicate the amount from related-party transactions. 0 (thousands of Euros).

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Directors shall take the necessary measures to avoid becoming involved in situations in which their interests, whether personally or on behalf of another party, may conflict with the corporate interest and their duties before the Company.

Specifically, under the duty to avoid situations of conflicts of interests, Directors shall be obliged to abstain from:

- Undertaking transactions with the Company, with the exception of ordinary operations made under standard conditions for clients and that are of limited relevance, understood to be those whose information is not required to express a faithful rendering of the Company's equity, financial position and income.
- Use the Company's name or rely on their status as Directors to unduly influence operations for their own account.
- Use corporate assets, including confidential information belonging to the company, for private purposes.
- Take advantage of the Company's business opportunities.
- Obtain payments or benefits from third parties other than the Company and its Group associated with his/her position, with the exception of hospitality.
- Perform activities on their own account or the account of others that represent effective competition, whether currently or potentially, with the Company or that in any other way place them in a permanent conflict with the Company's interests.

Directors must inform the Board of Directors, through the General Secretary, of any direct or indirect conflict of interest between them and the Company. Directors shall abstain from participating in the deliberation and voting on agreements or decisions in which he/she or a related person has a direct or indirect conflict of interests. Agreements or decisions that affect their capacity as Directors, such as their appointment to or removal from roles on the Board of Directors, its Committees and the Executive Committee, or other similar agreements or decisions shall be excluded from the aforementioned abstention.

In any case, conflicts of interests in which Company Directors find themselves shall be reported on pursuant to the law in force.

Directors shall perform their duties as a faithful representative, employing good faith and acting in the best interests of the Company, interpreted with full independence, and they will ensure at all times that the interests of the shareholders as a whole, from whom their authority originates and to whom they are accountable, are best defended and protected.

The Directors, by virtue of their appointment, are obliged, in particular, to:

- Refrain from using their powers for any other purpose than for which they were originally granted.
- Perform their functions under the principle of personal responsibility with complete freedom and independence in terms of instructions from and links to third parties.
- Comply with the general principles and criteria of conduct contained in the Company's Code of Ethics.

Furthermore, Endesa has a Conflict of interests, exclusive service and commercial competition protocol, the purpose of which is to regulate the actions that Endesa employees must take in terms of exclusive service and commercial competition, and establish the rules to be applied in terms of conducts or situations that represent a direct or indirect potential conflict between the Company's interest and personal interests of any of its employees.

D.7 Is more than one group company listed in Spain?

Yes

No X

Identify the listed subsidiaries in Spain.

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve possible conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the risk management system in place at the company, including tax risk.

The Risk Management and Control Policy, approved by the Board of Directors and applied at Endesa and all subsidiaries, involves guiding and directing all strategic, organizational and operating activities to enable the Board of Directors to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximizing the Company's profit, maintaining or increasing its assets and equity and the certainty of this occurring above certain levels, preventing future uncertain events from undermining profit targets.

The Risk Management and Control Policy defines ENDESA's risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from the consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and the appropriate use of capital.

The risk management and control model is based partly on the ongoing study of the risk profile, applying current best practices in the electricity sector or benchmark practices in risk management, criteria for standardizing measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, always respecting an appropriate balance between the risk assumed and the targets set by the Board of Directors.

The comprehensive risk management process consists of the identification, measurement, analysis and monitoring of different risks, together with their monitoring and control over time, based on the following procedures:

- Identification. The purpose of identifying risks is to maintain a prioritized and updated database of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- Control. The aim of the risk control is to guarantee that the risk assumed by ENDESA is in line with the targets set, in the last instance, by the Board of Directors of ENDESA, S.A.
- Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

This process sets out to secure an overview of risk to assess and priorities risks. It covers the main financial and non-financial risks to which the Company is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks identified and establishing regular reviews. To boost these initiatives, Endesa's Board of Directors has also approved a Tax Risk Management and Control Policy to guide and direct strategic, organizational and operating activities to enable Tax Affairs employees and the different departments at the organization whose work involves the company's taxation, achieving the objectives set as part of the Company's Tax Strategy in terms of tax risk management and control.

E.2 Identify the bodies responsible for preparing and implementing the risk management system in place at the company, including tax risk.

Board of Directors. Responsible for determining the Risk Management and Control Policy, including tax issues, the supervision of the internal information and control systems and the setting the Company's acceptable risk level at all times.

Audit and Compliance Committee. Its duties include:

1. Informing the Board of Directors of the Risk Management and Control Policy, including tax risks, for approval in addition to any amendments, ensuring that at least the following aspects are identified:

a)The different types of risk, financial and non-financial, (inter alia, operational, technological, legal, social, environmental, political and reputational) that the Company is exposed to, including among financial or economic risks, contingent liabilities and other risks not on the balance sheet.

b)The determination of the risk level the Company sees as acceptable.

c)Measures in place to mitigate the impact of risk events should they occur.

d)The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

2. Monitor the effectiveness of the Company's internal controls and risk management systems. To this end, the Audit and Compliance Committee shall be responsible for the direct supervision of Endesa's Risk Committee, which is internally responsible for the Risk Management and Control Policy. In this connection, it shall perform a periodic assessment of the internal Risk Management and Control function's performance.

3. Assess all aspects related to the Company's non-financial risks each year, including operating, technological, legal, social, environmental, political and reputational risks.

Risk committee. The body responsible for enforcing the Risk Management and Control Policy, supported by the internal procedures of the different business lines and corporate areas. Its main functions are as follows:

- Regularly provide the Board of Directors with a comprehensive view of current and foreseeable risk exposure.
 - Ensure that senior management participates in strategic risk management and control decisions.
 - Ensure coordination between the risk management unit and units responsible for its control and compliance with the risk management and control policy and its internal procedures.
 - Ensure the proper operation of the risk control and management systems and, in particular, ensure that all important risks regarding its management are appropriately identified, managed and quantified.
 - Actively participate in drawing up the risk strategy and in important decisions regarding its management.
 - Ensure that the risk control and management systems appropriately mitigate risk as part of the risk control and management policy.
- The following functions are delegated to Risk Control by the Risk Committee in terms of managing and controlling risks at the company:
- Define the procedures and standards that make it possible to coordinate the company's integrated risk control system;
 - Produce the documentation that makes it possible to report the company's risk exposure or any relevant risk management or control event to the Risk Committee or any other decision-making body;
 - Ensure the adequate identification, definition, management and quantification of all risks that affect the company in a homogenous and periodic manner.
 - Coordinate periodic assessments that make it possible to ensure the correct functioning of risk management and control systems.

Internal Control. Responsible for the implementation, update and monitoring of the system for internal control of financial reporting (ICFR), establishing the controls and procedures, as it sees fit, for ensuring the quality of the financial information that Endesa makes public.

Business lines and corporate areas. All areas at the company, including the Tax Department, are directly involved in risk management. Its main responsibilities are:

- Considering risk management as an integrated part of its undertakings each day, having implemented the risk management framework in a consistent and effective manner.
- Ensuring that risk policies, risk management processes and internal controls associated with this line are implemented effectively pursuant to the principles and limits established.
- Comprehensively identifying both risks that affect business performance and those that arise as part of its undertakings.
- Supporting Risk Control in risk measurement and reporting tasks.
- Ensuring that the segregation of functions established in the risk management framework is adhered to in such a way that it is guaranteed that effective controls are in place and their implementation does not create unnecessary inefficiencies.

Internal Audit. Continuously supervise the structure and functionality of the Internal Risk Management and Control System (SCIGR) and internally or externally validate the risk model.

E.3 Indicate the main risks, including tax risk, which may prevent the company from achieving its targets.

Endesa is exposed to the following risk factors when carrying out its activities, as described in the Risk Management and Control Policy:

- Financial or market risk: risk of fluctuations in prices and other market variables leading to changes in enterprise value or profits.

These risks are classified as:

- o Interest rate risk
 - o Currency risk
 - o Commodity risk
 - o Liquidity and financial risk
 - o Counterparty risk
- Business risk: this type of risk includes:
- o Operational risk or industrial risk
 - o Environmental risk or Legal and tax risk
 - o Reputational risk
 - o Strategic and regulatory risk

E.4 Identify if the company has a risk tolerance level, including tax risk.

The businesses, corporate areas, and companies that form part of the Business Group establish the risk management controls required to ensure that transactions are performed in the markets in accordance with ENDESA's policies, principles and procedures and, in any case, respecting the following limits and rules:

- Alignment of the risk levels with the objectives set by the Board of Directors.
- Optimization of risk control and management from a consolidated perspective, giving the latter priority over individual management of each of the risk.
- Continual assessment of hedging, transference and mitigation mechanisms to guarantee their suitability and the adoption of the best market practices.
- Continuous studying of laws, rules, current regulations, jurisprudence and legal doctrine, including tax laws, to guarantee that transactions are made in accordance with the principles that regulate the activity.
- Respect for and compliance with internal regulations, with special focus on Corporate Governance, the Code of Ethics, the Zero Tolerance Plan Against Corruption and the General Principles for Criminal Risk Prevention.
- Duty to preserve the health and safety of the people who work for and at ENDESA.
- Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental effects of ENDESA's activities.
- Responsible optimization of the use of available resources, in order to provide profitability for our shareholders as part of a relationship based on the principles of loyalty and transparency.
- ENDESA's financial policies contemplate the active management of financial risk related to the ordinary operation of the Company. In general, speculative positions are restricted.
- In terms of tax, the risk tolerance level is defined in the company's Fiscal Strategy approved by the Board of Directors and reflected in the Tax Risk Management and Control Policy. The Company is committed to satisfying current tax regulations, employing a reasonable interpretation thereof at all times and trying to avoid, following said interpretation, undue tax costs and inefficiencies for the company.

The objective of risk control is achieved through the following steps:

- Definition of quantitative references that reflect ENDESA's strategy and its predisposition to risk (limits) and the monitoring thereof.
- Identification and consideration of possible breaches of limits.
- Establishment of actions, processes and information flows needed to allow for periodic review of limits in order to take advantage of specific opportunities arising from each activity.
- If risk limits are exceeded, the appropriate corrective measures are suggested, using hedging, transfer (insurance) and mitigation mechanisms for manageable risk and, in the case of non-manageable risk, the contingency plans are assessed or the activity is halted.

E.5 Identify any risks, including tax risk, which have occurred during the year.

The risks that occurred during the year were inherent to the activity performed, such as constant exposure to regulatory, interest-rate, exchange-rate, volatility of fuel, credit or counterparty risk.

These risks remained within normal limits in proportion to the Company's activity, and the established control systems worked adequately. In terms of cyber-security risk, the response to attacks suffered by ENDESA in 2017 was adequate and their impact was of little relevance.

E.6 Explain the response and monitoring plans for the main risks the Company is exposed to, including tax risk.

ENDESA has a risk identification system that allows regular assessment of the nature and magnitude of the risks that the organization is facing. The development of an integrated risk control and management process and, as part of it, a structured and standardized reporting system, has helped synergies to be obtained for the consolidation and comprehensive processing of risks and has allowed key indicators to be developed to detect potential risks and send early alerts. The comprehensive risk management process implemented in the Company establishes, inter alia:

- Achieving a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.
- Contracting currency swaps and exchange rate insurance to mitigate currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.
- Exposure to fluctuations in commodity prices is managed long term through the diversification of contracts, management of the procurements portfolio by tying it to indexes that perform in a similar or comparable way to final electricity prices (generation) or selling prices (supply), and through periodic contractual renegotiation clauses, the objective of which is to maintain the economic equilibrium of procurements.
- In the short term, liquidity risk is mitigated by ENDESA by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.
- ENDESA's liquidity policy consists of arranging committed long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.
- In addition, ENDESA develops the centralized cash function, drawing up cash forecasts to ensure it has sufficient cash to meet operational needs.
- ENDESA performs very detailed monitoring of the credit risk and takes a series of precautions that include, inter alia: Risk analysis, assessment and monitoring of counterparty credit quality; Establishing contractual clauses, requesting collateral, requesting guarantees, or taking out insurance. - Exhaustive review of the level of counterparty exposure; Diversification of counterparties
- There is one single defined environmental policy for all of ENDESA.
- Prevention and protection strategies are in place to mitigate risks of breakdown or accidents that temporarily interrupt the operation of the plants.
- In order to transfer certain risks, mitigating the effects if they occur, ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business – including, inter alia, damages to the Company itself, general civil liability, environmental and nuclear power plant liability.
- ENDESA manages most of the tax obligations for ENDESA and its controlled companies in a centralized fashion. Therefore, it has developed procedures for each of the taxes that it manages. Besides describing the processes for properly paying taxes and performing quality control regarding taxes paid, these processes include the appointment of a person responsible for the process and a person responsible for supervising it.

- Due to the existence of different interpretations of applicable regulations, ENDESA relies on experts in the area to analyze them and it also relies on prestigious legal and tax advisors who collaborate in the interpretation of these regulations, which allows ENDESA to adapt its actions to legal requirements.
- In order to have thorough, reliable knowledge of the status of audience opinion, ENDESA has social research tools used regularly and exclusively for the Company, and also information from studies of the same nature that are available to the public.
- In terms of the supervision of tax risk and the corresponding response plans, the unit that handles tax affairs periodically identifies risks associated with the tax function, classifies them depending on the risk factor in question and the type of risk, before performing an economic assessment. Subsequently, they are managed accordingly with a view to eliminating or reducing the risk, and only assumed when it is considered that there are solid arguments to defend the stance taken. Risks are reported to the Risk Control Unit on a periodic basis for their inclusion in the company's Risk Map.
- To combat the risk of cyber-security, a strategy has been deployed that is structured around a management framework aligned with international standards and government incentives that make it possible to protect information, industrial assets and emerging technologies.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

Board of Directors

The Board of Directors of ENDESA is ultimately responsible for the existence and regular updating of an adequate and effective ICFR system. As stipulated in the Board of Directors' Regulations, this duty has been delegated in the Audit and Compliance Committee. The supervision of internal information and control systems is role of assigned to the Board of Directors that cannot be delegated and the Audit and Compliance Committee, as set out in Spain's Corporate Enterprises Act, is responsible for overseeing the efficiency of the Company's internal controls, in addition to other responsibilities.

Audit and Compliance Committee

ENDESA's Audit and Compliance Committee Regulations state that the main task of this Committee is to promote good corporate governance and ensure the transparency of all actions of the ENDESA in the economic and financial, external audit, compliance and internet audit areas.

The committee is entrusted with supervising the preparation and presentation of regulatory financial information and monitoring the efficacy of ENDESA's ICFR and risk management systems, as well as discussing with the auditors or audit firms any significant weaknesses detected in the internal control system during the course of the audit work.

It is also responsible for supervising internal audit services, monitoring its independence and efficacy, proposing the selection, appointment, reappointment and removal of the head of internal audit and receiving regular report-backs on its activities, and verifying that senior management are acting on the findings and recommendations of its reports.

Audit and Compliance Committee members are appointed in light of their knowledge and experience of accounting, audit or risk management.

Transparency Committee

In 2004, ENDESA set up a Transparency Committee, presided by the Chief Executive Officer and consisting of senior executives, including all members of the Executive Management Committee together with other members of ENDESA management directly involved in the preparation, certification and disclosure of financial information.

This Committee's main purpose is to ensure compliance with and the correct application of general financial reporting principles (confidentiality, transparency, consistency and responsibility) by evaluating the events, transaction reports and other matters of relevance disclosed and determining the manner and deadlines for making these disclosures.

The duties of the Transparency Committee also include assessing the findings submitted to it by ENDESA's Administration, Finance and Control Department, based on the report prepared by ENDESA's Internal Control Unit with respect to compliance with and the effectiveness of the internal financial information controls and the internal controls and procedures concerning market disclosures, taking corrective and/or preventive action and reporting to the Audit and Compliance Committee of the Board of Directors in this respect.

Administration, Finance and Control Department

ENDESA's Administration, Finance and Control Department, n supporting the Transparency Committee, performs the following ICFR-related duties:

- Proposing financial reporting policies to the Transparency Committee for approval.
- Evaluating the effectiveness of the controls in place and how well they work, including any breaches of approved internal control policies.

Internal Control Unit

Within ENDESA's Administration, Finance and Control Department, there is a dedicated ICFR Unit tasked with the following duties:

- Communicating approval of ICFR policies and procedures to ENDESA's various subsidiaries and business units.

- Maintaining, updating and making the ICFR model and the documentation associated with procedures and controls available to the company.
 - Defining the flow charts for certifying the evaluation of the effectiveness of the controls and procedures defined in the ICFR model.
 - Overseeing the process of certifying internal controls over financial reporting and the internal disclosure controls and procedures, and submitting periodical reports on its conclusions with respect to the system's effectiveness.
- All matters relating to internal control over financial reporting and the disclosure of financial information are regulated in the organizational procedure No. 5 "Internal Control over Financial Reporting", the purpose of which is to establish the operating principles and lines of responsibility for the establishment and maintenance of internal controls over financial reporting and internal financial information disclosure controls and procedures in order to ensure their reliability and to guarantee that reports, events, transactions and other material developments are disclosed in an adequate form and timeframe. The ICFR system is evaluated and certified every six months.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organizational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

Design of the organizational structure

The Board of Directors, through the CEO and the Appointments and Remuneration Committee (one of the Board's advisory committees), is responsible for the design and review of the organizational structure and for defining lines of responsibility and authority.

The CEO and the Appointments and Remuneration Committee establish the distribution of tasks and functions, ensuring adequate segregation of duties and coordination mechanisms among the various departments so that everything works as it should.

The Organizational and Human Resources Unit is tasked with designing, planning and disclosing the change management framework in the case of major organizational transformations, planning change programmes and the related resources and processes. It is also responsible for defining the guidelines for the Group's organizational structure and for relevant organizational changes. Lastly, the unit ensures the definition and implementation of the global job posts systems, evaluating the key professional functions and executive positions.

Corporate policy No. 26 "Organizational Guidelines" defines and establishes criteria for identifying, developing and implementing organizational guidelines, and also the evaluation and assessment of roles.

The various organizational guidelines are posted on ENDESA's Intranet and are available for viewing by all ENDESA employees.

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

Code of conduct - Regulatory framework for ethics and compliance

ENDESA has the following internal regulations on ethics and crime prevention:

Code of Ethics

ENDESA has a Board-endorsed Code of Ethics which itemizes the ethical commitments and duties to which the professionals working for ENDESA and its subsidiaries, be they Directors or staff, no matter their positions,

are bound in the course of managing these companies' business and corporate activities.

The Code of Ethics comprises:

- The general principles governing relations with stakeholders that define ENDESA's benchmark business values.
- The standards of conduct for dealing with all groups of stakeholders, enshrining the specific guidelines and rules which ENDESA professionals must adhere to in order to uphold the general principles and avoid unethical behavior.
- The Implementation Mechanisms, describing the organizational structure of the Code of Ethics environment, responsible for ensuring that all employees are aware of, understand and comply with the Code. The principles and provisions of ENDESA's Code of Ethics must be respected and complied with by the members of the Board of Directors, the Audit and Compliance Committee and other governing bodies of ENDESA and its subsidiaries, as well as these entities' executives, employees and any other professionals related to ENDESA via contractual relationships of any type, including those working for or with them on an occasional or temporary basis.

The Code's general principles include that of "Information transparency and integrity", which stipulates that "ENDESA's professionals must provide complete, transparent, comprehensible and accurate information such that when entering a relationship with the Company the implicated parties can take independent decisions that are informed with respect to the interests at stake, the alternatives and the relevant ramifications".

Zero Tolerance Plan Against Corruption

The Board-approved Zero Tolerance Plan Against Corruption requires all ENDESA employees to be honest, transparent and fair in the performance of their work. The same commitments are expected of its other stakeholders, i.e. people, groups and institutions that help ENDESA meet its objectives or that are involved in the activities it performs in order to achieve its goals. In compliance with Principle 10 of the Global Compact, of which ENDESA is a signatory, "Businesses should work against corruption in all its forms, including extortion and bribery", ENDESA expressly rejects all forms of corruption, direct and indirect, to which end it has an anti-corruption programme in place.

Criminal Risk Prevention Model

Endesa's Criminal Risk Prevention Model, in place since 1 January 2012, is a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the company, complying with the Spanish Criminal Code on criminal responsibility of legal persons.

According to current legislation, having adopted an appropriate and efficient prevention model, whose operation and supervision have been entrusted to a Company body with independent powers of initiative and control, could mean the Company being exempt from criminal responsibility with regard to a criminal offence.

The following protocols, which establish general criteria for action in different areas, form part of Endesa's crime prevention model:

- Conflict of interests protocol. Exclusive dedication and commercial competition.
 - Protocol for accepting presents, gifts and favours.
 - Protocol for dealing with public servants and the authorities.
- A 'whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organization, stating whether reports made through this channel are confidential.

Whistle-blowing channel

ENDESA has had an Ethics Channel in place since 2005. This is accessible via its corporate website and intranet to all employees, so that all stakeholders can report, securely and anonymously, any irregular, unethical or illegal conduct which has, in their opinion, occurred in the course of ENDESA's activities.

The procedure for using this channel ensures confidentiality, as all complaints and communications are managed by an independent external supplier.

In addition to this Channel, a number of other channels are available for submitting complaints. These are all routed to Internal Audit, in accordance with ENDESA's internal procedures.

Internal Audit is responsible for ensuring that all complaints received are processed correctly, considering them and acting independently of other company units. It has access to all company documents needed for the exercise of its functions. It also monitors the implementation of the recommendations included in its audit reports. Internal Audit reports to the Board of Directors through the Audit and Compliance Committee, which centralizes and channels significant complaints to the Board.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Training programmes

The Business Organization and Human Resources Department works together with the Administration, Finance and Control Department to prepare the training schedule for all staff involved in preparing the ENDESA's annual financial statements. This Plan includes ongoing updates on business trends and regulatory developments affecting the activities performed by the various ENDESA companies, specific IFRS skills courses and training regarding ICFR standards and developments.

In 2017, ENDESA's Administration, Finance and Control Department received 13,577 training hours, of which 32.37% were devoted to the acquisition, refreshment and recycling of financial skills and knowledge, addressing matters such as accounting and audit standards, internal controls, risk management and control and regulatory and business matters with which these professionals need to be familiar in order to properly draw up ENDESA's financial information. The rest of the training hours were earmarked to management skills, workplace health and safety matters and IT skills. Of these hours 11.83% were for language training and 31.72% for information technology.

In addition, whenever necessary, ENDESA provides specific training courses on financial reporting and control matters to staff outside the Administration, Finance and Control Department who are directly or indirectly involved in supplying information used in the financial reporting process.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

Since 2005, ENDESA has had a formally organized ICFR.

- The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

The financial reporting risk identification and maintenance process covers the following financial information objectives:

- Existence and occurrence.
- Integrity.
- Measurement/valuation.
- Presentation, disclosure and comparability.
- Rights and obligations

ENDESA's Internal Control Unit updates the ICFR relevant processes map to reflect any quantitative or qualitative change that may affect the internal control model.

The evaluation (in terms of probability and impact) of both inherent and residual risks is updated every time there is a change in processes or whenever a new company is included within the scope. This evaluation can result in the identification of new risks, which are mitigated by designing new controls or updating existing controls.

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

Defining the scope of consolidation

ENDESA keeps a corporate register, which is permanently updated, with information on all its shareholdings, whether direct or indirect, including all entities over which ENDESA has the power to exercise control, regardless of the legal structure giving rise to such control (so that this register also includes holding companies and special purpose vehicles).

The management and updating of this corporate register is governed by corporate protocol N.035, entitled "ENDESA Corporate Records Management".

ENDESA's scope of consolidation is determined on a monthly basis by the Administration, Finance and Control Department based on the information available in the corporate records and in accordance with the criteria stipulated by International Financial Reporting Standards (hereinafter "IFRS") and other local accounting regulations. All ENDESA companies are informed of any changes to the scope of consolidation.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

Furthermore, the financial reporting risk identification and maintenance process also factors in the impact that the other risk factors pinpointed in the risk map may have on the financial statements (primarily operational, regulatory, legal, environmental, financial and reputational).

- Finally, which of the company's governing bodies is responsible for overseeing the process.

The Audit and Compliance Committee is tasked with overseeing the effectiveness of ENDESA's ICFR and informing the Board of Directors accordingly. To this end, recommendations or proposals may be submitted to the Board of Directors, along with the corresponding follow-up period.

F.3

ontrol activities

C

Indicate the existence of at least the following components, describing their main characteristics.

- F.3.1. Procedures for reviewing and authorizing the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Procedures for reviewing and authorizing the financial information and description of ICFR

ENDESA discloses financial information to the market quarterly. This information is prepared by the Management Area, which performs certain controls as part of the closing of accounts procedure in order to ensure the reliability of the information disclosed. In addition, the Planning and Control Area analyses and monitors the information produced.

The General Manager of Administration, Finance and Control analyses the reports received, provisionally certifying the aforementioned financial information for submission to the Transparency Committee.

The Transparency Committee itself for half years, and the representatives designated by the Transparency Committee for quarters, analyze the information received from the Administration, Finance and Control Department. Once it approves the information received, it is sent to the Audit and Compliance Committee.

The Audit and Compliance Committee oversees the financial information presented to it. For the accounting closes that coincide with the end of a six-month financial period, and those of particular importance, the Audit and Compliance Committee also receives information from ENDESA's external auditor on the results of the work it has performed.

Lastly, the Audit and Compliance Committee presents its conclusions regarding the financial information presented to it to the Board of Directors. Once the Board has approved the information for issue, it is disclosed to the market.

Internal Control over Financial Reporting Model

ENDESA's ICFR model is in line with the model established for all Enel Group companies, which is based on the COSO Model (The Committee of Sponsoring Organizations of the Treadway Commission).

Firstly, there are Management Controls or "Entity Level Controls" (hereinafter "Management Controls" or "ELC") and "Company Level Controls" (hereinafter "CLC"). The structural elements are interrelated across all divisions/companies.

There are also specific ELC controls to mitigate the risk of Segregation of Duties (hereinafter "SOD-specific ELC") and access controls (hereinafter "ELC-ACCESS") that mitigate the risk of unauthorized access to the software applications or network folders involved in the process.

In application of the Enel Group model, ENDESA has identified the following business cycles at the process level common to all its subsidiaries:

- 1) Fixed assets
- 2) Accounting close
- 3) Capital investments
- 4) Finance
- 5) Inventory
- 6) Personnel Expenses
- 7) Procurement cycle
- 8) Revenue cycle
- 9) Taxes other than income tax

The ICFR unit manages and continuously updates documentation on each process, following the methodology established to this end. All organizational changes imply the need to review the control model in order to assess their impact and make any changes required to ensure operational continuity. The primary components of each process are:

- Risks.
- Control activities. Also called "Process Level Controls" (hereinafter "PLC"), except for the specific case of IT systems, which are called IT General Controls (hereinafter "ITGCs").

The control activities ensure that, in the ordinary course of business and in respect of all consolidated financial statement headings, ENDESA's control targets are met.

The internal control model applied in 2017 involves an average level of coverage of 95.3% of the main consolidated financial statement headings (total assets, indebtedness, pre-tax income and results).

All information relating to the internal control model is documented in the IT tool called SAP-GRC PROCESS CONTROL (hereinafter SAP-GRC). The persons responsible for the control activity (the Control Owners) are appointed by the process managers, and are responsible for carrying out the six-monthly self-assessments.

The Internal Control Unit provides those responsible for processes and controls with the support required and ensure that the assessment process proceeds correctly.

The ICFR assessment process includes:

- The certification of the internal control system, covering the following phases:

- Self-assessment of Control Activities (PLC).
- Self-Assessment of Management Controls (ELC/CLC).
- Sign-off from the people responsible at the different Organisational Units involved, escalated throughout the company's hierarchy through to sign-off by the CEO.

All of these phases are monitored and supported by the Internal Control Unit. ? The verification performed by the external consultant on ENDESA's ICFR controls.

The outcome of the internal control system certification and the results obtained as part of the verification performed by the external consultant are included in the report from ICFR.

The weaknesses detected are classified into three categories as follows, depending on their possibility of impact on financial statements:

- Control weaknesses (insignificant)
- Significant weaknesses
- Material weaknesses

All weaknesses detected in the internal control system result in a specific action plan being drawn up to resolve each of them. The Internal Control Unit reports to the Transparency and Audit and Compliance Committees on these weaknesses detected in the ICFR until they are definitively resolved.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Global ICT area is responsible for the IT and telecommunications systems for all ENDESA's businesses and geographic markets.

The duties attributed to Global ICT include the definition, application and monitoring of the security standards and the development and operation of infrastructure and software, both for traditional models and for the new cloud computing paradigm. All computing activities are performed applying the internal control method in the field of information technologies.

ENDESA's internal control model and, in particular, Global ICT's model, encompass the IT processes, which in turn include the IT environment, architecture and infrastructure, and the applications, which affect transactions with a direct impact on the entity's key business processes and, ultimately, its financial information and reporting processes. These controls can be implemented by means of automated programming or using manual procedures. ENDESA has an global internal control model for all key IT systems used in preparing financial information, which is designed to guarantee the overall quality and reliability of the financial information produced at each close and, by extension, the information disclosed to the market.

The IT system internal control model is structured into four areas of governance:

- Planning and Organization

- Solution and Maintenance
- Service Delivery and Support
- Performance Monitoring

These areas are in turn developed as part of processes and sub-processes with the necessary refinements to guarantee an appropriate level of control of the IT system and ensure the integrity, availability and confidentiality of each company's financial information.

ENDESA's internal IT system control model contains the control activities needed to cover the risks intrinsic to the following IT system management aspects, and financial information processes and systems:

- IT environment
- Management of application changes
- IT operations and management
- Logical security and physical access
- Telecommunications

To ensure the security of its information, in 2007, ENDESA set up its Information Security function, currently integrated into the Security Division of the Media Department, in response to requirements dictated by legislation, the technological environment and the market itself. This is based on the regulatory framework established for information security, whose guiding principles are included in the Security Policy (Policy 40), in the Information Protection and Classification Policy (Policy 33) and the IT Systems Access Control Policy (Policy 111).

The Security Policy establishes the organizational framework for managing the security risks to which the company's tangible and intangible assets and people resources are exposed, determining the implementation of technical and organizational measures needed for their control and management.

The objectives of this are:

- The protection of employees from risks of an intentional nature or risks derived from natural disasters
- The observance of current safety standards, laws and regulations.
- Protection of IT infrastructure and software, industrial automation systems and control systems.
- Protection of tangible resources (work places, the company's infrastructure systems) from threats that could affect their value or compromise their functional capacity.
- Ongoing safeguarding of information and data from unauthorized alteration (integrity); unauthorized access (confidentiality); and accidental or intentional damage that might affect their use by authorized users (availability); ensuring that the person responsible for the information or provision of a service (and their counterparty) are who they say they are (authentication); and that it is always possible to know who has carried out any action affecting the information and when (auditability).

The IT Systems Access Control Policy (Policy 111) is also in place, which sets out guidelines and establishes the control model for the management of access to IT systems and applications, reducing the risk of fraud or involuntary access to Group information and safeguarding the confidentiality, accuracy and availability thereof.

In 2007, Endesa set up a Decision Rights Management function (currently known as Segregation of Duties, part of the Internal Control Unit) to guarantee the identification, management and control of functional incompatibilities and ensure that no single person can dominate a critical process.

In terms of the foregoing, Function Segregation Controls (SOD-specific ELC) and logical access controls (ELC-ACCESS) form part of the ICFR and are assessed and verified just like all the other controls that form part of the model.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

When ENDESA outsources an activity involving the issue of financial information, it requires the supplier to provide a guarantee attesting to the internal control measures in place for the activities performed. When processes are outsourced, service providers are asked to obtain an ISAE 3402 "International Standard on Assurance Engagements" report. When IT infrastructure services are delegated (Datacenter and Hardware), service providers are required by contract to obtain an SOC1/SSAE16 report. These reports allow ENDESA to check whether the service provider's control objectives and activities have worked during the corresponding time horizon. In other instances, such as services to delegate software or IT platforms, ENDESA contracts an independent expert to certify that the services do not present any material shortcoming with respect to the process of generating the ENDESA's consolidated financial statements. When ENDESA engages the services of an independent expert, it first assures itself of their legal and technical competence and skills. ENDESA has control activities in place in respect of independent expert reports, as well as staff with the ability to validate the reasonableness of the report findings.

There is also an internal procedure for hiring external advisors, which stipulates a series of clearances depending on the size of the engagement, which may even call for CEO approval. The results and/or reports of outsourced accounting, tax or legal activities are supervised by the Administration, Finance and Control Department and the Legal Counsel Department along with any other areas whose expertise is deemed of value to this end.

F.4 formation and communication

Indicate the existence of at least the following components, describing their main characteristics.

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Responsibility for application of ENDESA's accounting policies for all its geographic markets is centralized in ENDESA's Administration, Finance and Control Department.

ENDESA's Administration, Finance and Control Department has an Accounting Criteria and Reporting Unit which is specifically responsible for analyzing the International Financial Reporting Standards (hereinafter, "IFRS") and the Spanish Chart of Accounts (GAAP) as they impact ENDESA Group companies. In performance of these functions, the Accounting Criteria and Reporting Unit is responsible for:

- Defining ENDESA's accounting policies.
- Analyzing executed and planned transactions to determine the appropriateness of their accounting treatment in line with ENDESA's accounting policies.
- Monitoring the new standards being worked on by the International Accounting Standards Board (hereinafter "IASB") and the Instituto de Contabilidad y Auditoría de Cuentas (hereinafter "ICAC"), any new standards approved by the IASB and the related European Union endorsement process, assessing the impact their implementation will have on the Group's consolidated financial statements at different levels.
- Resolving any query made by any subsidiary regarding application of ENDESA's accounting policies.

The Accounting Criteria and Reporting Unit keeps all those with financial reporting responsibilities at the various levels within ENDESA abreast of amendments to accounting standards, settling any doubts they may have and gathering the required information from subsidiaries to ensure consistent application of ENDESA's accounting policies and to enable it to quantify the impact of application of new or amended accounting standards.

ENDESA's accounting policies are based on IFRS and are documented in the "ENDESA Accounting Manual". This document is updated regularly and is distributed to the parties responsible for preparing the financial statements of all ENDESA companies.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

ENDESA has a series of IT tools (classified internally as relevant for the purposes of ICFR) to cover all the reporting needs of its individual financial statements in addition to facilitating the consolidation process and subsequent analysis. These tools form part of a homogeneous process, under a single audit plan for the information corresponding to the separate financial statements of all ENDESA subsidiaries, including the notes and additional disclosures needed to prepare the annual financial statements. Each year, ENDESA engages an independent expert to certify that the tools do not present any material shortcoming with respect to the process of generating ENDESA's consolidated financial statements.

The data is uploaded into this consolidation system by a process that begins with the loading of Financial Information System (transactional), which is also centralized and in place in virtually all ENDESA companies.

In turn, the ICFR model is supported by a IT system that produces all the information needed to draw conclusions with respect to effectiveness of the model.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics.

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR.

Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

Every six months, the Administration, Finance and Control Department's Internal Control Unit monitors the process by which the design and functioning of the ICFR system is evaluated and certified. It duly reports its findings to the Transparency Committee, which is the body responsible for ensuring adequate internal control of the information disclosed to the market.

To this end, the Internal Control Unit is supplied with the evaluation of the entity/company, process and IT control (ELCs/CLCs, PLCs and ITGCs, respectively) in order to verify:

- In the event of process changes, whether the identification of control activities has been duly updated and the new control activities sufficiently cover the process control risks.

- Whether all weaknesses in the control system design or functioning have been detected. A weakness refers to an incident which implies that the control system may not be able to guarantee with reasonable assurance the ability to acquire, prepare, summaries and disclose the Company's financial information.

- Whether the actual/potential impact of the aforementioned weaknesses has been evaluated and any required mitigating control activities put in place to guarantee the reliability of the financial information, notwithstanding the existence of these weaknesses.

- The existence of action plans for each weakness identified.

In the course of this process, any incidents of fraud, no matter how insignificant, involving managers or staff participating in processes with a financial reporting impact are identified and reported.

In addition, over the course of the year, progress on the actions plans put in place by ENDESA to address any shortcomings identified previously. These plans are defined by those responsible for each process and shared with the Internal Control Unit.

The Transparency Committee is informed of and certifies the evaluation of the model, the assessment of weaknesses and the status of related action plans twice a year.

Lastly, every six months, the Administration, Finance and Control Department presents the Audit and Compliance Committee with its conclusions with respect to the evaluation of the ICFR system and progress on executing the action plans deriving from earlier evaluations.

The half-yearly evaluations carried out in 2017 revealed no material ICFR weaknesses. The following is a list of the number of controls evaluated and reviewed by the external consultant:

TOTAL CONTROLS 2,406 Assessed and 404 Revised by the external consultant

Controls: 2,219 Assessed and 403 Revised by the external consultant, of which:

- PLC Controls: 2,073 Assessed and 377 Revised by the external consultant

- ELC/CLC Controls: 130 Assessed and 23 Revised by the external consultant, of which SOD-specific ELC controls accounted for: 55 Assessed and 23 Revised by the external consultant and the Remaining ELC/CLC: 75 Assessed. -

- ELC Controls - ACCESS: 16 Assessed and 3 Revised by the external consultant.

ITGC general controls: 187 Assessed.

As a result of both the self-assessment process and the review carried out by the external consultant, 20 control weaknesses that do not significantly affect the quality of the financial information were identified, and 3 insignificant weakness relating to ITGC general controls. In keeping with the foregoing, ENDESA's management believes that the ICFR model for the period 1 January to 31 December 2017 proved effective and that the controls and procedures in place to provide reasonable assurance that the information disclosed by the Group to the market is reliable and adequate are similarly effective.

Furthermore, ENDESA's Internal Audit Unit, whilst performing process audits, identifies the main weaknesses in the internal control system, proposing the action plans required to resolve them, those responsible for implementing them and the corresponding period for following up.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Each year, the Board of Directors holds a meeting with the external auditor to receive information on the work performed and the financial position of and risks faced by the Company.

ENDESA's auditor has access to ENDESA Senior Management, to which end it holds regular meetings in order to gather the information needed to perform its work and to notify any control weaknesses encountered in the course of its work.

The Audit and Compliance Regulation also establishes among its competences: To review, analyze and discuss on an on-going basis the financial statements and other non-financial information related to the management, internal audit, external auditor or, as the case may be, audit firm, as applicable.

F.6 Other relevant information

All of ENDESA's material ICFR disclosures are covered in the preceding sections of this report.

F.7 External auditor

report State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

Pursuant to CNMV Circular 7/2015 of 22 December, ENDESA has included in its 2017 Annual Corporate Governance Report a description of the main features of its internal control and risk management systems with regard to statutory financial reporting, following the structure proposed in the aforementioned Circular. In addition, ENDESA has considered it appropriate to ask its external auditor to issue a report on its review of the information disclosed in this ICFR report in accordance with the pertinent professional conduct guide.

DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the Company's compliance with the recommendations of the Good Governance Code for Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behavior. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant X

Explain

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
 - a) The type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies.
 - b) The mechanisms in place to resolve possible conflicts of interest.

Compliant

Partially compliant

Explain

Not applicable X

3. During the general shareholders' meeting, in addition to the written dissemination of the annual corporate governance report, the chairman of the Board of Directors verbally informed the shareholders, in sufficient detail, about the most relevant aspects of the Company's corporate governance and, in particular:

- a) About the changes that had occurred since the last general shareholders' meeting.
- b) About the specific reasons why the Company does not follow some of the recommendations in the Corporate Governance Code and about the alternative rules it applies, if any, in that area.

Compliant X

Partially compliant

Explain

4. The Company should define and promote a policy of communication and contact with shareholders, institutional investors and vote advisors that fully respects rules against market abuse and treats shareholders in the same position in a similar fashion.

And the Company should make the policy public on its website, including information relating to the way in which the same has been put into practice and identifying the parties responsible for it.

Compliant X

Partially compliant

Explain

5. The Board of Directors should not submit a proposed proxy for issuing shares or convertible bonds with the exclusion of pre-emptive rights to the general shareholders' meeting, for an amount higher than 20% of the capital at the time of the proxy.

And when the Board of Directors approves any issue of shares or convertible bonds with exclusion of pre-emptive rights, the Company should immediately publish on its website the reports on that exclusion referred to by commercial legislation.

Compliant X

Partially compliant

Explain

6. Listed companies that draw up the following reports, whether of a compulsory or voluntary nature, should publish them on their website sufficiently in advance of the general shareholders' meeting, although their dissemination is not compulsory:

- a) Report on the independence of the auditor.
- b) Reports on the operation of the audit and appointment and remuneration committees.
- c) Audit committee's report on related-party transactions.
- d) Report on the corporate social responsibility policy.

Compliant X

Partially compliant

Explain

7. The Company should broadcast the general shareholders' meetings live on their website.

Compliant X

Explain

8. The audit committee should ensure the Board of Directors tries to present the annual accounts to the general shareholders' meeting without limitations or reservations in the audit report. Should such reservations exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant X

Partially compliant

Explain

9. The Company should publish on its website, permanently, the requirements and procedures that it will accept for certifying ownership of shares, the right to attend the general shareholders' meeting and exercising or delegating the right to vote.

And those requirements and procedures should favour the shareholders attending and exercising their rights and be applied in a non-discriminatory fashion.

Compliant X

Partially compliant

Explain

10. When a legitimated shareholder has exercised the right, before the general shareholders' meeting, to complete the agenda or submit new proposed resolutions, the Company:

- a) Immediately disseminates these additional points and new proposed resolutions.
- b) Publishes the attendance, remote voting and proxy card model with the precise amendments so that the new points on the agenda and alternative proposals may be voted on under the same terms as the proposals made by the Board of Directors.
- c) Submits all of these points and alternative proposals to voting and applies the same voting rules to them as to those made by the Board of Directors, including, in particular, the presumptions or deductions on voting.
- d) Subsequent to the general shareholders' meeting, announce the breakdown of the voting on these additional points or alternative proposals.

Compliant

Partially compliant

Explain

Not applicable X

11. If the Company has planned to pay premiums for attendance at the general shareholders' meeting, a general policy on those premiums should be established in advance and the policy should be stable.

Compliant

Partially compliant

Explain

Not applicable X

12. The Board of Directors should perform its duties with a single purpose and independent criteria, treat all shareholders in the same position in the same manner and be guided by the Company's interests, understood to be achieving a profitable and sustainable business in the long term, which promotes its continuity and the maximum financial value for the Company.

Pursuing the Company's interests, besides respecting laws and regulations and conduct based on good faith, ethics and respect for commonly accepted customs and good practices, it should try to conciliate the Company's interests with, as applicable, the legitimate interests of its employees, its providers, its clients and those of the remaining stakeholders that may be affected, and also the impact of the Company's activities on the community as a whole and on the environment.

Compliant X

Partially compliant

Explain

13. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise between five and fifteen members.

Compliant X

Explain

14. The Board of Directors should approve a policy for selecting directors that:

- a) Is precise and attestable.
- b) Ensures that the proposed appointments or re-elections are based on prior analysis of the needs of the Board of Directors.
- c) Encourages diversity of gender, experience and knowledge.

The result of the prior analysis of the needs of the Board of Directors should be contained in the appointments committee's report that is published when the general shareholders' meeting to which the ratification, appointment or re-election of each director is submitted is called.

The policy for selecting directors should promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020.

The appointments committee will check compliance with the policy for selecting directors annually and will report on it in the annual corporate governance report.

Compliant X

Partially compliant

Explain

15. Proprietary and independent directors should occupy an ample majority of places on the Board of Directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant X

Partially compliant

Explain

16. The percentage of proprietary directors of the total non-executive directors should not be greater than the proportion between Company capital represented by those directors and the rest of the capital.

This criterion may be minimized:

- a) In large cap companies where few equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the Board of Directors but not otherwise related.

Compliant X

Explain

17. The number of Independent Directors should represent at least half of all board members.

Nonetheless, when it is not a large cap company or when it is but has one or several shareholders acting in a concerted manner, who control more than 30% of the company capital, the number of independent directors should represent, at least, a third of the total directors.

Compliant X

Explain

18. Companies should publish the following Director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background.
- b) Other boards of directors they belong to, whether listed companies or not, and also other paid activities they perform, whatever their nature.
- c) An indication of the Director's classification as Executive, Proprietary or Independent; in the case of Proprietary Directors, stating the shareholder they represent or have links with.

- d) The date of their first appointment and subsequent re-elections as a company Director.
- e) Shares held in the company, and any options on the same, that they own.

Compliant X Partially compliant Explain

19. The annual corporate governance report should, after verification by the appointments committee, also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant Partially compliant Explain Not applicable X

20. Proprietary directors should resign when the shareholders they represent transfer their equity stake in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Compliant Partially compliant Explain Not applicable X

21. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the Board of Directors, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director takes on new roles or new obligations that prevent him or her from dedicating the time required for performing the duties of the role of director, is in breach of his or her fiduciary duties or comes under one of the grounds that disqualify him or her from being independent, in accordance with what is established in applicable legislation.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 16.

Compliant X Explain

22. Companies should establish rules obliging directors to inform the board of directors of any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

And the moment a Director is indicted or tried for any of the crimes stated in company law, the Board of Directors should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The Board of Directors should also disclose all such determinations in the annual corporate governance report.

Compliant X Partially compliant Explain

23. All directors should express clear opposition when they feel a proposal submitted for the board of directors' approval might damage the corporate interest. In particular,

independents and other Directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking representation on the Board of Directors.

When the board of directors makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this recommendation should also apply to the secretary of the board of directors, whether a director or otherwise.

Compliant	Partially compliant	Explain	Not applicable X

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board of directors. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the annual corporate governance report.

Compliant X	Partially compliant	Explain	Not applicable

25. The appointments committee should ensure that non-executive directors have enough time to properly perform their duties.

The Board of Directors' Regulations should establish the maximum number of boards of directors that its directors may sit on.

Compliant X	Partially compliant	Explain

26. The board of directors should meet with the necessary frequency to properly perform its functions and, at least, eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may individually propose the addition of other items.

Compliant X	Partially compliant	Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And, when necessary, they should delegate with instructions.

Compliant X	Partially compliant	Explain

28. When directors or the secretary express concern about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minute book.

Compliant	Partially compliant	Explain	Not applicable X

29. The company should establish suitable channels for directors to obtain the advice and guidance they need to carry out their duties including, if required by the circumstances, external assistance at the company's expense.

Compliant X	Partially compliant	Explain

30. Regardless of the knowledge required of the directors for exercising their duties, the companies should also offer directors refresher programmes when circumstances so advise.

Compliant X

Explain

Not applicable

31. The agenda should clearly indicate those points on which the board of directors has to adopt a decision or agreement so that the directors may study or gather, in advance, the information required to make such decisions.

When, exceptionally, in urgent cases, the chairman wants to submit decisions or agreements that are not on the agenda to the board of directors for approval, prior and express consent will be required from the majority of directors present, which will be duly recorded in the minutes.

Compliant X

Partially compliant

Explain

32. Directors shall be regularly informed of any changes in shareholdings and of the opinion of significant shareholders, investors and credit rating agencies as regards the company and its group.

Compliant X

Partially compliant

Explain

33. The chairman, as the party responsible for the efficient operation of the board of directors, besides exercising duties that are attributed to him or her by law and the bylaws, should draw up and submit a calendar and agenda to the board of directors; organize and coordinate the regular evaluation of the board and also, where applicable, of the company's chief executive officer; be responsible for managing the board and its effective operation; ensure that sufficient time is spent on the discussion of strategic matters, and agree on and review refresher programmes for each director, when circumstances so advise.

Compliant X

Partially compliant

Explain

34. When there is a coordinating director, the bylaws or board of directors' regulations should attribute to him or her, besides the powers corresponding by law, the following duties: presiding over the board of directors in the absence of the chairman and the vice chairmen, if there are any; echoing the concerns of the non-executive directors; maintaining contact with investors and shareholders to learn their points of view for the purpose of forming an opinion regarding their concerns, in particular, in relation to the company's corporate governance; and coordinating the plan for the succession of the chairman.

Compliant X

Partially compliant

Explain

Not applicable

35. The secretary of the board of directors should especially ensure that the board of directors take the good governance recommendations contained in this good governance code into account when they are applicable to the company.

Compliant X

Explain

36. The board of directors, in plenary session, should evaluate and adopt, where applicable, an action plan once a year to correct deficiencies detected with regard to:

- a) The quality and efficiency of the functioning of the board of directors.
- b) The operation and composition of its committees.
- c) Diversity in the composition and powers of the board of directors.
- d) The performance of their duties by the chairman of the board of directors and by the company's chief executive officer.
- e) The performance and contribution of each director, paying special attention to the managers of the board's different committees.

The evaluation of the different committees will be based on the reports they submit to the board of directors and the latter will be evaluated based on the report submitted by the appointments committee.

Every three years, the board of directors shall be assisted in carrying out an assessment by an independent external consultant, whose independence will be verified by the appointments committee.

The business relationships that the consultant or any company in its group maintains with the company or any group company must be listed in the annual corporate governance report.

The process and areas evaluated will be described in the annual corporate governance report.

Compliant X	Partially compliant	Explain

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board should also act as secretary to the executive committee.

Compliant X	Partially compliant	Explain	Not applicable

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all members of the board of directors should receive a copy of the executive committee's minutes.

Compliant	Partially compliant	Explain	Not applicable X

39. The members of the audit committee and, especially, its chairman should be appointed bearing in mind their knowledge and experience in accounting, auditing or risk management, and most of those members should be independent directors.

Compliant X	Partially compliant	Explain

40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function and ensures the proper operation of internal reporting and control systems and that reports to the non-executive chairman of the board or of the audit committee.

Compliant X	Partially compliant	Explain

41. The head of the unit that assumes the internal audit function should present an annual work programme to the audit committee; directly report any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant X	Partially compliant	Explain	Not applicable

42. Besides those set out in law, the following duties correspond to the audit committee: 1. With respect to internal control and reporting systems:

- a) To monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, check for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- b) To strive for the independence of the unit that assumes the internal auditing function; propose the selection, appointment, re-election and removal of the person responsible for the internal auditing services; propose the budget for such service; approve the focus and work plan to ensure the activity is primarily focused on relevant risks for the company; receive regular information on its activities; and verify that senior management takes into consideration the conclusions and recommendations of its reports.
- c) To establish and supervise a mechanism whereby staff can report, confidentially and, if possible and necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect of the external auditor:

- a) To investigate the issues giving rise to the resignation of any external auditor.
- b) To ensure that the remuneration of the external auditor for his work does not compromise its quality or its independence.
- c) To oversee that the company reports, as a material fact, to the Spanish Securities Market Commission (CNMV) the change of auditor and accompanies it with a declaration on the eventual existence of disagreements with the outgoing auditor and, if any, the content thereof.
- d) To ensure that the external auditor maintains an annual meeting with the board of directors, in plenary session, to inform it regarding the work performed and the financial position of and risks faced by the company.
- e) To ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations on the independence of the auditors;

Compliant X

Partially compliant

Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant X

Partially compliant

Explain

44. The audit committee should be informed of any transactions that would implement structural and corporate changes that the company aims to make for their analysis and a preliminary report to the board of directors on their economic conditions and their accounting impact and, especially, where applicable, on the proposed exchange ratio.

Compliant X

Partially compliant

Explain

Not applicable

45. Control and risk management policy should specify at least:

- a) The different types of risk, financial and non-financial, (inter alia, operational, technological, legal, social, environmental, political and reputational) that the company is exposed to, including among financial or economic risks, contingent liabilities and other risks not on the balance sheet.
- b) The determination of the risk level the company sees as acceptable.

- c) Measures in place to mitigate the impact of risk events should they occur.
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Compliant X

Partially compliant

Explain

46. Under the direct supervision of the audit committee or, where applicable, of a specialist committee of the board of directors, there should be an internal risk control and management function exercised by one of the company's internal units or departments that has expressly been entrusted with the following duties:

- a) Ensure the proper operation of the risk control and management systems and, in particular, ensure that all important risks that affect the company are appropriately identified, managed and quantified.
- b) Actively participate in drawing up the risk strategy and in important decisions regarding its management.
- c) Ensure that the risk control and management systems appropriately mitigate risk as part of the policy defined by the board of directors.

Compliant X

Partially compliant

Explain

47. The members of the appointments and remuneration committee —or the appointments committee and the remuneration committee, if they are separate— should be appointed ensuring that they have the appropriate knowledge, aptitude and experience for the functions that they are called upon to perform and the majority of those members should be independent directors.

Compliant X

Partially compliant

Explain

48. Large cap companies should have a separate appointments committee and remuneration committee.

Compliant

Explain X

Not applicable

The Endesa Board of Directors consists of 11 members, 5 of whom are independent.

Following the recommendations in the Code of Good Governance, most members of the Appointments and Remuneration Committee (comprised of six members) are independent. Specifically, all independent members of the Board (five) sit on this Committee.

The decision has been taken not to separate the current Appointments and Remuneration Committee into two different committees (an appointments committee and a remuneration committee) as their composition would be practically identical, made up of the five independent directors.

49. The Appointments Committee should consult with the Chairman of the Board of Directors and the company's Chief Executive Officer, especially on matters relating to executive directors.

Any board member should be able to suggest directorship candidates to the appointments committee for its consideration.

Compliant X

Partially compliant

Explain

50. The remuneration committee should exercise its functions independently and, besides the functions attributed to it by law, should also have the following duties:

- a) To propose the standard conditions for senior officer employment contracts to the board of directors.
- b) To check compliance with the remuneration policy set by the company.
- c) To regularly review the remuneration policy applied to directors and senior management, including systems of remuneration in shares and its application, and also guarantee that their individual remuneration is proportionate to that paid to the other company directors and senior management.
- d) To ensure that any potential conflicts of interest do not threaten the independence of any external advising provided to the committee.
- e) To verify information regarding remuneration of directors and senior executives provided in various corporate documents, including the annual report on remuneration of directors.

Compliant X

Partially compliant

Explain

51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant X

Partially compliant

Explain

52. The rules for the composition and operation of the supervision and control committees should be in the board of directors' regulations and should be consistent with those applicable to the commissions that are applicable by law in accordance with the above recommendations, including:

- a) They should be exclusively comprised of non-executive directors, and the majority should be independent directors.
- b) Committees should be chaired by an independent director.
- c) The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and should report on their activity to the first board plenary following their meetings and should answer for the work done.
- d) The committees may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes should be taken of their meetings and should be available to all directors.

Compliant X

Partially compliant

Explain

Not applicable

53. One or several committees of the board of directors should be responsible for supervising compliance with the corporate governance rules, with internal codes of conduct and with the corporate social responsibility policy; these may be the audit committee, the appointments committee, the corporate social responsibility committee, if there is one, or a specialist committee that the board of directors, exercising its powers of self-organization, decides to create for the purpose, which will have the following specific minimum duties:

- a) Supervision of compliance with the internal codes of conduct and the company's corporate governance rules.
- b) Supervision of the communications strategy and relationships with shareholders and investors, including small and medium shareholders.

- c) Regular assessment of the suitability of the company's corporate governance system, so that it complies with its mission of promoting social interest and takes into account, as applicable, the legitimate interests of the other stakeholders.
- d) Review of the company's corporate social responsibility policy, ensuring it is aimed at creating value.
- e) Monitoring the corporate social responsibility strategy and practices and assess compliance therewith.
- f) Supervision and assessment of the engagement processes for different interest groups.
- g) Assessment of all aspects related to the company's non-financial risks – including operating, technological, legal, social, environmental, political and reputational risks.
- h) Coordinating the process for reporting non-financial and diversity information, in accordance with applicable regulations and international benchmark standards.

Compliant X

Partially compliant

Explain

54. The corporate social responsibility policy should include the principles or commitments that the company assumes voluntarily in its relationship with the different stakeholders and should identify at least:

- a) The goals of the corporate social responsibility policy and the development of support instruments.
- b) Corporate strategy relating to sustainability, the environment and social matters.
- c) Specific practices in matters relating to: shareholders, employees, clients, providers, social matters, environment, diversity, tax obligations, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of applying the specific practices indicated in the previous letter, the associated risk and management of the same.
- e) Mechanisms for supervising non-financial risk, ethics, and business conduct.
- f) Channels of communication, participation and dialogue with stakeholders.
- g) Responsible communication practices that prevent manipulation of information and protect integrity and honour.

Compliant X

Partially compliant

Explain

55. The company should report, in a separate document or in the management report, on matters relating to corporate social responsibility, using any of the internationally accepted methodologies.

Compliant X

Partially compliant

Explain

56. The remuneration of the directors should be as necessary to attract and retain directors of the desired profile and to remunerate the dedication, qualification and responsibility that the role requires, but not so high that it compromise the non-executive director criteria of independence.

Compliant X

Explain

57. Variable remuneration linked to the company's performance and personal performance, in addition to remuneration comprising the delivery of shares, share options, rights to shares or other share-based instruments, and long-term savings systems

such as pension plans, retirement systems and other social benefit systems should be confined to executive directors.

The delivery of shares may be contemplated as remuneration for non-executive directors when they are obliged to retain them until the end of their tenure. The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.

Compliant X

Partially compliant

Explain

58. In the case of variable remuneration, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not only the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

And, in particular, with regard to the variable components of the remuneration:

- a) They should be related to pre-determined and measurable performance criteria and those criteria should consider the risk assumed to obtain a result.
- b) They should promote the sustainability of the company and include non-financial criteria that should be appropriate for the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies.
- c) They should be based on balance between compliance with objectives in the short, medium and long term, which allow performance to be remunerated for continued effort over a long enough period of time for their contribution to the creation of sustainable value to be appreciated, so that the elements for measuring this performance do not only revolve around specific, occasional or special events.

Compliant X

Partially compliant

Explain

Not applicable

59. Payment of a relevant part of the variable components of the remuneration should be a deferred for a sufficient minimum period to check that previously established performance conditions have been met.

Compliant X

Partially compliant

Explain

Not applicable

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant X

Partially compliant

Explain

Not applicable

61. A relevant percentage of the variable remuneration of executive directors should be linked to the delivery of shares or share-based financial instruments.

Compliant X

Partially compliant

Explain

Not applicable

62. Once the shares or options or rights to actions corresponding to the remuneration systems have been attributed, the directors may not transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, nor may they exercise the options or rights until, at least, three years after they were attributed.

The above will not be applicable to shares that the directors has to sell to satisfy costs related to their acquisition.

Compliant

Partially compliant

Explain

Not applicable X

63. Contractual agreements should include a clause that allows the company to claim a refund of variable components of remuneration when the payment was not adapted to performance conditions or when they were paid based on data which later proved to be incorrect.

Compliant X

Partially compliant

Explain

Not applicable

64. Payments for termination of contract should not exceed a set amount equivalent to two years of total annual remuneration and should not be paid until the company has been able to check that the director has complied with the previously established performance criteria.

Compliant

Partially compliant X

Explain

Not applicable

The contractual conditions of current directors are prior to this recommendation. However, ENDESA's Directors' Remuneration Policy establishes that when new directors are incorporated into Senior Management at the Company or Group, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the executive director contracts.

H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the code and date of adoption.

- Note section A.3

Section A.3 establishes the number of shares in the Company that Directors held at 31 December 2017. However, it must be noted that the Chairman, Mr Borja Prado, purchased 545 shares in ENDESA on 9 January 2018 meaning that the balance at the time of authorising this report for issue is 16,950 shares.

- Note paragraphs C.1.18

This section includes the changes to the Board of Directors Regulations of December 18, 2017 and 26 February 2018.

- Note section C.1.37

Also includes services provided by the external auditor for audits other than that of the financial statements and other audit-related services, in contrast to the criteria for 2016 which only included other non audit-related services provided by the external auditor.

- Note section E.4

Endesa's Board of Directors, on 30 January 2017 and having obtained a favorable response from the Audit and Compliance Committee, approved Endesa's Tax Risk Management and Control Policy, which regulates the principles that must guide Endesa's Tax Function, defining the obligations and responsibilities within the organization to this end and including a description of the measures that must be in place to mitigate any tax risks potentially identified, in addition to the principles that must guide the correct control of tax risks, including the application of a series of ex-ante preventive controls on the one hand, and the application of a series of ex-post controls, which entail their identification, measurement, analysis, monitoring and reporting in line with the provisions of Endesa's Risk Management and Control Plan and Endesa's Risk Map Guidelines.

CODE OF BEST PRACTICES

At its 20 December 2010 meeting, the Board of Directors of ENDESA approved the adoption of the Code of Best Tax Practices (CBTP). In compliance with the provisions thereof, ENDESA's head of tax matters has been reporting annually to the Board, through the Audit Committee, on the company's tax policies and the tax implications of the company's most significant operations of the year. Furthermore, on 25 January 2016, ENDESA's Board of Directors ratified the company's adherence to the code of Endesa, S.A. and its Spanish subsidiaries after the recent incorporation to the same of an appendix with new obligations of conduct both for the company and for the administration". In addition, on 30 January 2017, the Board of Directors approved the annual submission of the Increased Transparency Report before the Spanish tax authorities, the content and format of which was approved in December 2016 at the Large Businesses Forum that ENDESA forms part of, all within the framework of cooperative compliance developed under the aforementioned CBTP. The aforementioned report for 2016 was submitted on 6 June 2017.

Likewise, Endesa is attached to the United Nations Global Compact, which promotes implementation, on an international level, of the 10 universally accepted principles for promoting corporate social responsibility (CSR) in the areas of human rights, labour regulations, the environment and the fight against corruption in companies' business strategy and activities.

- Note NON-FINANCIAL INFORMATION

Pursuant to the transposition of Directive 2014/95/EU on the disclosure of non-financial information and information on diversity, under Royal Decree Law No. 18/2017, of 24 November 2017, a description of the diversity policy applied in relation to the Board of Directors is provided below.

The policy for selecting candidates for the office of director ensures that the proposed appointments of directors are based on a prior analysis of the requirements of the Board, the Audit and Compliance Committee and the Appointments and Remuneration Committee, as a whole, and favours diversity of knowledge, experience and gender, which is a reflection of Endesa's commitment to diverse representation on its highest governing body right from the initial phase of selecting possible candidates.

Specifically, this Policy seeks the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, such as economic-financial, accounting and audit, internal control, business risk management and legal), also promoting, insofar as possible, diversity of age and gender.

Gender: The policy for selecting directors shall promote the goal of the number of female directors representing, at least, 30% of the total members of the Board of Directors by 2020. In this connection, in 2017, following the inclusion of María Patrizia Grieco on the Board of Directors, the percentage of women has increased from 9% to 18%. At listed companies, the percentage of women on Boards of Directors has increased by 4.6% since 2013, coming to 16.6% in 2016 (CNMV data).

Age: The average age on the Board of Directors is 64, with ages ranging from 52 to 77. According to data published by the annual Spencer Stuart Report, the average age of Directors at Ibex 35 companies in 2016 is 60.4.

Time of service: the average time of service of members of Endesa's Board in 2017 is 4.2 years, compared to the Ibex 35 average of 6.9 years, according to 2016 data released by the CNMV.

The background of Directors is diverse and encompasses disciplines related to the industry to which the Company belongs, such as engineering, law, the economy, etc. As a whole, Directors have the technical knowledge and sufficient experience to perform their duties accordingly.

By nationality, foreign members of Endesa's Board account for 45% of all members, compared to the 19% average at Ibex 35 companies according to the 2016 Spencer Stuart Annual Report.

Endesa is convinced that diversity, in all its facets and at all levels of its professional team, is an essential factor to ensure the Company's competitiveness and a key component of its corporate governance strategy that not only encourages critical stances, but also the expression of diverse viewpoints and positions and the analysis of their positive and negative characteristics.

A table containing details on experience, professional skills and diversity at 31 December 2017 is attached.

This annual corporate governance report was adopted by the company's board of directors at its meeting held on 26/02/2018.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

No X

ANNEX I

Auditor's Report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2017

ENDESA Group

Auditor's report on the "Information relating
to Internal Control over Financial Reporting
(ICFR-SCIIF in Spanish)" for 2017

*Translation of a report originally issued in Spanish. In the event of discrepancy
the Spanish-language version prevails*

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL
OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" OF THE ENDESA GROUP FOR 2017

To the Directors,

At the request of the management of ENDESA, S.A. (the Parent Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated January 22, 2018, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2017 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the ENDESA Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Company's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's annual financial information for 2017 described in the accompanying ICFR. Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit and Compliance Committee.
4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board of Directors Meetings, Audit and Compliance Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and the Circular nº 7/2015, of December 22, of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

José Agustín Rico Horcajo

February 26, 2018

ANNEX II

Additional information to the paragraph H.1

ANNEX H-1: DIVERSITY INFORMATION

In compliance with the transposition of Directive 2014/95/EU on disclosure of non-financial and diversity information as per Royal Decree Law 18/2017, of 24 November 2017, the diversity policy applied to the Board of Directors is described below:

Experience, professional skills and diversity as of 31 December 2017:

DIRECTORS	SKILLS AND COMPETENCIES					DIVERSITY			
	Finance & Risk	Engineering	Legal	Management	Strategy	Tenure (years)	Nationality	Gender	Age
Borja Prado Eulate	✓		✓	✓	✓	10	SPA	M	61
Francesco Starace	✓	✓		✓	✓	3	ITA	M	62
José Bogas Gálvez	✓	✓		✓	✓	3	SPA	M	62
Alberto De Paoli	✓			✓	✓	3	ITA	M	52
Miquel Roca Junyent	✓		✓	✓	✓	8	SPA	M	77
Alejandro Echevarría Busquet	✓			✓	✓	8	SPA	M	75
Maria Patrizia Grieco	✓		✓	✓	✓	1	ITA	F	65
Enrico Viale	✓	✓		✓	✓	3	ITA	M	60
Helena Revoredo Delvecchio	✓			✓	✓	3	ARG	F	70
Ignacio Garralda Ruíz de Velasco	✓		✓	✓	✓	2	SPA	M	66
Francisco de Lacerda	✓			✓	✓	2	PRT	M	57

APPENDIX III

Statement of Non-Financial Information

(Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Statement of Non-Financial Consolidated Information of ENDESA S.A. and Subsidiaries

Madrid, 26 February 2018

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ORGANISATION OF THE ENDESA GROUP

1. Business Model for the Management and Organisation of Company Activities.

1.1. Name of the Organisation.

ENDESA, S.A. and subsidiaries, hereinafter ENDESA Group or ENDESA.

1.2. Activities, Brands, Products and Services.

The ENDESA Group operates in the electricity and gas business, mainly in the markets of Spain and Portugal. To a lesser extent, ENDESA also supplies electricity and gas in other European markets, and other value-added products and services (VAPS) related to its main business. The Organisation is divided into generation, supply and distribution activities, each of which includes electricity and, in certain cases, gas activities.

1.3. Location of the Registered Office.

Calle Ribera del Loira, nº 60

28042 Madrid

Spain

1.4. Location of Operations.

See section 1.7.

1.5 Criteria for the Preparation of the Statement of Non-Financial Consolidated Information.

This document, which is part of ENDESA's consolidated Management Report as of 31 December 2017, was prepared in accordance with the requirements set forth by Royal Decree-Law 16/2017, of 24h of November, which amends the Merchant Code, Capital Companies Law, approved by the Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Accounts Auditing, in the aspects of non-financial and diversity information. In order to provide this information, the ENDESA Group has followed the Global Reporting Initiative (GRI Standards) and its sectorial supplement, "Electric Utilities Sector Supplement" for the indicators detailed in the Annex attached.

The scope of this Statement of non-financial consolidated information includes consolidated information of the ENDESA Group for 2017 following the consolidation principles included in the consolidated Financial Statements for 2017.

1.6. Ownership and Legal Form.

ENDESA, S.A.'s activity is structured by business lines, giving the Company flexibility and the ability to respond to the needs of its customers in the territories and businesses in which it operates. For the organisation of its lines of business, ENDESA works primarily through the following companies:

- ENDESA Generación, S.A.U. which, in turn, comprises, among others, holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), ENEL Green Power España, S.L.U. (EGPE) (100%) and a 50% stake in Nuclenor, S.A., which owns the Nuclear Plant at Santa María de Garoña (Burgos).

- ENDESA Red, S.A.U., which comprises, among others, ENDESA Distribución Eléctrica, S.L.U. (100%), which engages in regulated electricity distribution activities, and ENDESA Ingeniería, S.L.U. (100%).
- ENDESA Energía, S.A.U., which owns holdings in ENDESA Energía XXI, S.L.U. (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%).

1.7. Markets Supplied.

ENDESA generates, distributes and sells electricity mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France, Belgium, France and the Netherlands, from its platform in Spain and Portugal.

2. ENDESA in Figures.

	2015	2016	2017
Gross Operating Profit (EBITDA) (millions of euros) ⁽¹⁾	3,039	3,432	3,542
Profit after Tax and Non-Controlling Interests (millions of euros)	1,086	1,411	1,463
Share Capital (millions of euros)	1,271	1,271	1,271
Non-Current Financial Debt (millions of euros)	4,68	4,223	4,414
FINAL HEADCOUNT (EMPLOYEES)			
Spain and Portugal	10	9,694	9,706
GROSS INSTALLED CAPACITY (MW)			
Spain and Portugal	22,164	23,691	23,678
Hydroelectric	4,765	4,765	4,752
Conventional thermal	8,278	8,13	8,13
Nuclear thermal	3,443	3,443	3,443
Combined cycle	5,678	5,678	5,678
Renewables and cogeneration	-	1,675	1,676
ELECTRICITY GENERATION (GWh)			
Spain and Portugal ⁽²⁾	73,061	69,831	78,648
Hydroelectric	7,176	7,173	5,004
Conventional thermal	32,634	28,1	31,906
Nuclear thermal	25,756	25,921	26,448
Combined cycle	7,495	7,425	11,849
Renewables and cogeneration	-	1,212(5)	3,441
ELECTRICITY SALES TO END CUSTOMER (GWh)			
Spain and Portugal	92,899	93,49	96,513
Regulated Price	14,934	13,815	12,919
Deregulated Market ⁽³⁾	77,965	79,675	83,594
NUMBER OF ELECTRICITY CUSTOMERS ⁽⁶⁾ (THOUSANDS)			
Spain and Portugal	11,112	11,016	10,848
Regulated Market ⁽⁴⁾	6,029	5,593	5,255
Deregulated Market ⁽³⁾	5,083	5,423	5,593
ENERGY DISTRIBUTED ⁽²⁾ (GWh)			
Spain and Portugal	114,19	115,602	117,961

(1) EBITDA = Income - Procurements and Services + Self-constructed assets - Personnel Expenses - Other Fixed Operating Expenses.

(2) Data measured at power plant busbars.

(3) In line with the economic data related to this business that are provided in this report, this market includes the sales made by ENDESA Energía, S.A.U. to customers in European countries outside the Iberian market.

(4) Customers supplied under the rate system. Does not include customers supplied under the toll system.

(5) Data since the date on which control was taken of ENEL Green Power España, S.L.U. (EGPE) by ENDESA Generación, S.A.U., on 27 July 2016.

(6) Supply points.

3. Significant Organisational Changes.

In 2017, the significant changes at the Company were as follows:

As a result of these capacity auctions, which took place on 17 May 2017 and 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE) was awarded 540 MW of wind power capacity and 339 MW of photovoltaic capacity.

On 31 May 2017, ENDESA Red, S.A.U. acquired 52.54% of the share capital of Eléctrica de Jafre, S.A., whose activity entails electricity transmission and distribution, and the lease and reading of water and electricity meters. ENDESA Red, S.A.U. previously held a 47.46% stake in this company. As a result of this transaction, ENDESA took control of the company, thus reinforcing its distribution activity.

On 29 December 2016, ENDESA, S.A., acting through its fully owned subsidiary ENDESA Medios y Sistemas, S.L.U., formalised with ENEL Iberia, S.L.U. the acquisition from the latter of its ICT business within the ENDESA sphere. The effective date of the transaction was 1 January 2017 and entailed a reorganisation of the ICT activities at ENDESA to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying internal procedures and administrative management.

4. Commitment to a Sustainable Energy Model.

4.1. Open Power Strategic Positioning.

ENDESA has always been at the forefront of the different progress in the energy sector, carrying safe, accessible and sustainable energy to millions of people.

Aware of the significant change currently affecting the energy sector, ENDESA is situated in a new energy era, more open, participative and digital. Such positioning is summarised in the concept of Open Power, which constitutes the Company's mission, vision and values:

2025 mission:

- Open energy to more people.
- Open energy to new technologies.
- Open new ways of managing energy for consumers.
- Open energy to new uses.
- Open up ourselves to more employees.
- Vision:
- Open Power to affront some of the greatest challenges in the world

Values:

- Responsibility.
- Innovation.
- Trust.
- Pro-activity.

4.2. Sustainability Policy.

Meeting ENDESA's economic, social and environmental responsibilities in a balanced way, on the basis of sustainability, is essential if it is to maintain its leading position and strengthen it in the future.

Accordingly, ENDESA's Sustainability policy aims to formalise and specify the Company's commitment to sustainable development, evidenced in the strategic positioning *Open Power*.

To this effect, the commitments set out in the Sustainability Policy constitute the basis and guidelines for ENDESA's conduct in the promotion of a sustainable business model and, in this regard, its compliance is expressly boosted by the Company's senior management, concerns employees, contractors and suppliers, and is evaluated by third parties:

- These commitments are fully integrated into day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions that are included in successive Sustainability Plans.
- ENDESA has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments. In this regard, the Audit and Compliance Committee annually monitors the corporate social responsibility strategy and practices.
- ENDESA's focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.
- ENDESA is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholders.

Accordingly, the Sustainability Policy establishes nine specific commitments:

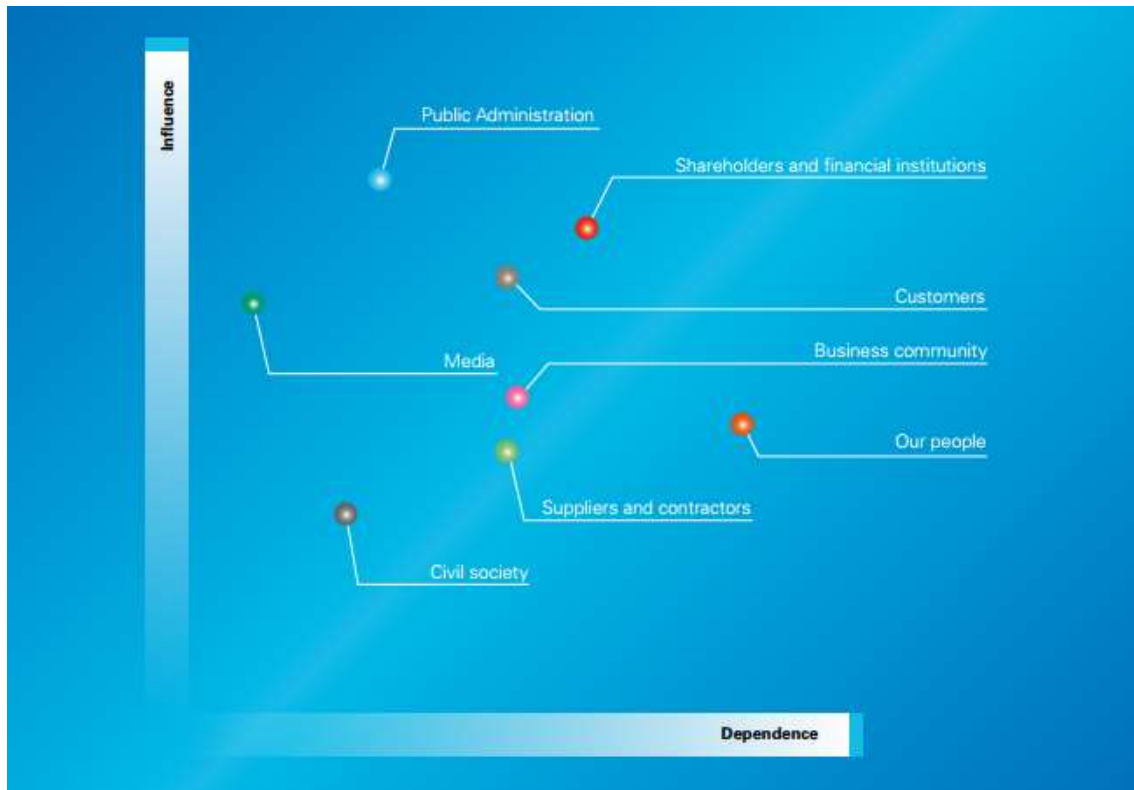
- **Customers:** commitment to digital quality, commercial excellence and efficient energy consumption.
- **Shareholders and investors:** commitment to creating value and profitability.
- **People:** commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA.
- **Conduct:** commitment to good governance, transparency and ethical conduct.
- **Environment:** commitment to reducing the environmental footprint and protecting the environment.
- **Innovation:** commitment to innovation in technology and the scope of services.
- **Company:** commitment to the socio-economic development of the communities in which the Company operates.
- **Institutions:** commitment to developing public-private partnerships to promote sustainable development.
- **Employees:** commitment of those who work with us to be actively involved in sustainability.

5. Organisational Approach of Stakeholder Participation: Identification and Participation of Stakeholders.

The stakeholders and their expectations constitute the base on which ENDESA organises its sustainability strategy. Accordingly, the Company pledges for the promotion of on-going dialogue with its stakeholders, with respect to which it reviews, identifies and catalogues its stakeholders at regular intervals, both at local and global level.

The ENDESA units responsible for ensuring correct dialogue with the stakeholders annually update the classification and cataloguing thereof, in line with the Company's reality and priorities. In this manner, each stakeholder is segmented to identify each of the groups forming it and thereby optimise the identification of dialogue and enquiry channels to assess its perception of Company management.

In 2017, ENDESA newly prioritised stakeholders in accordance with two fundamental variables: the level of dependence on the Company's activity and the ability to influence the Company's decision-making process. This analysis concluded that the public institutions, investors and customers are the stakeholders with the greatest ability to influence the Company, while its employees are those with the greatest degree of dependence.



This methodology also applies to local Company operations, in order to increase the level of detail, thereby seeking to identify the significant local stakeholders that enable effective responses to be devised in line with the Shared Value Creation Approach between the Company and its stakeholders.

Based on such prioritisation, ENDESA implements on-going interaction with them, through the use of different communication channels and procedures, enabling sound knowledge to be acquired of the needs and expectations of the stakeholders, together with their evolution.

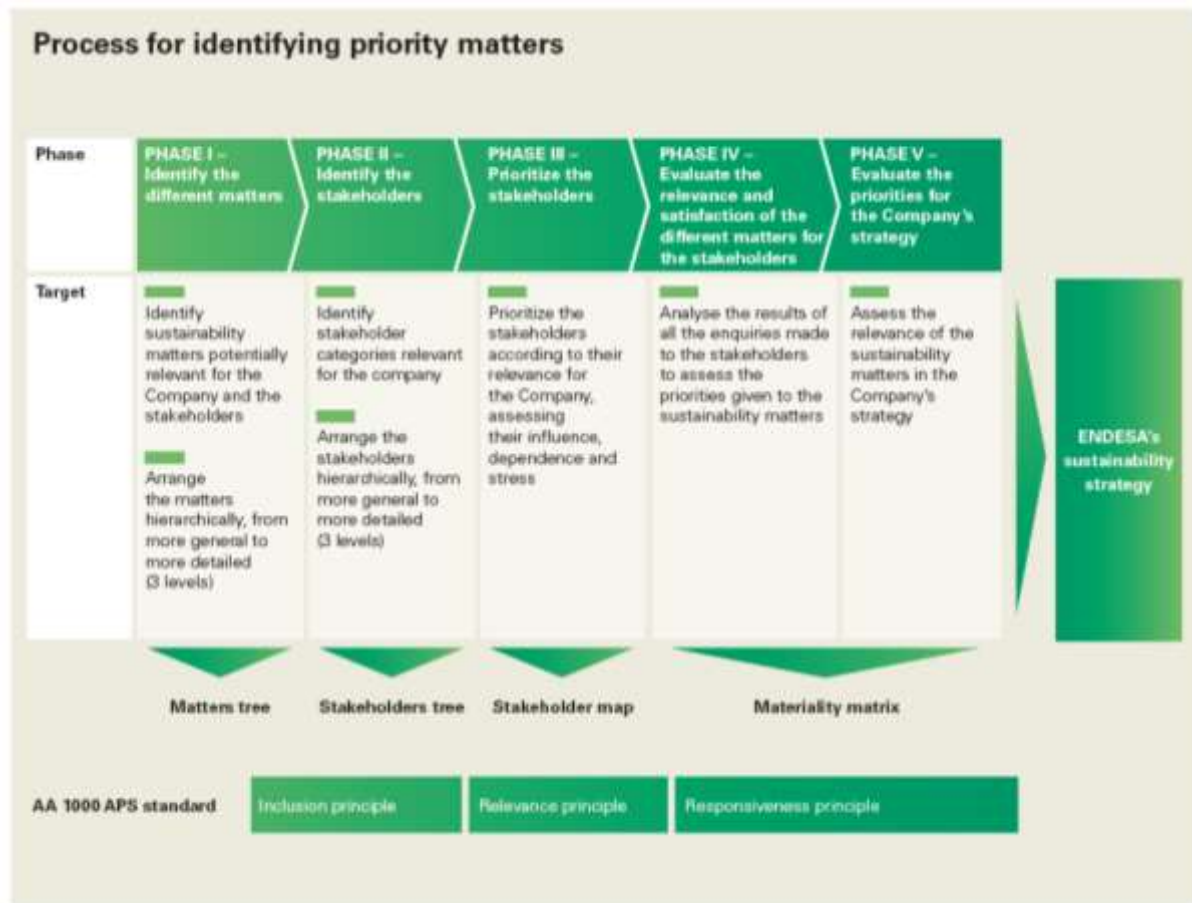
Stakeholder	Main Communication Channels
Public Authorities	- Direct contacts - Forums and symposiums - Working groups
Shareholders and Financial Institutions	- CNMV (Spanish National Securities Market Commission) - Corporate web page - Investor Relations Department: Roadshows, presentations of quarterly earnings and of the Strategic Plan - Shareholders' Office - General Shareholders' Meeting - Notifications to the voting advisers
Customers	- Sales offices - Sales managers - Web channel - Customer services centres - Forums and working groups - Mobile application - Social networks
Business Community	- Direct contacts - Meetings and working groups - Forums and symposiums
Media	- Direct contacts - Press conferences - Forums and symposiums - Social networks
Our People	- Intranet and internal social network - Forums and working groups - Knowledge interviews - Breakfast with the CEO - Contact mailboxes - Corporate magazine and newsletters
Civil Society	- Direct contacts - Working groups - Forums and symposiums - Web channel - Web and twenergy - Social networks - Ethics channel - Sustainability mailbox
Suppliers and Contractors	- Direct contacts - Web channel - Committees - Forums and symposiums - Working groups

6. Materiality Study: Identification of Priorities Based on Dialogue with Stakeholders.

6.1. Priority Identification Process.

In order to integrate stakeholder expectations in a structured aligned manner with the Company's purpose, ENDESA annually performs a priority identification process to assess and select the economic, ethical, environmental and social aspects that are relevant for the stakeholders and for the Company's strategy.

This process is aligned with the AA 1000 APS international standard, which aims to guide the Organisation in the strategic management of interaction with its stakeholders, through compliance with a series of principles: inclusivity, significance and response capacity.



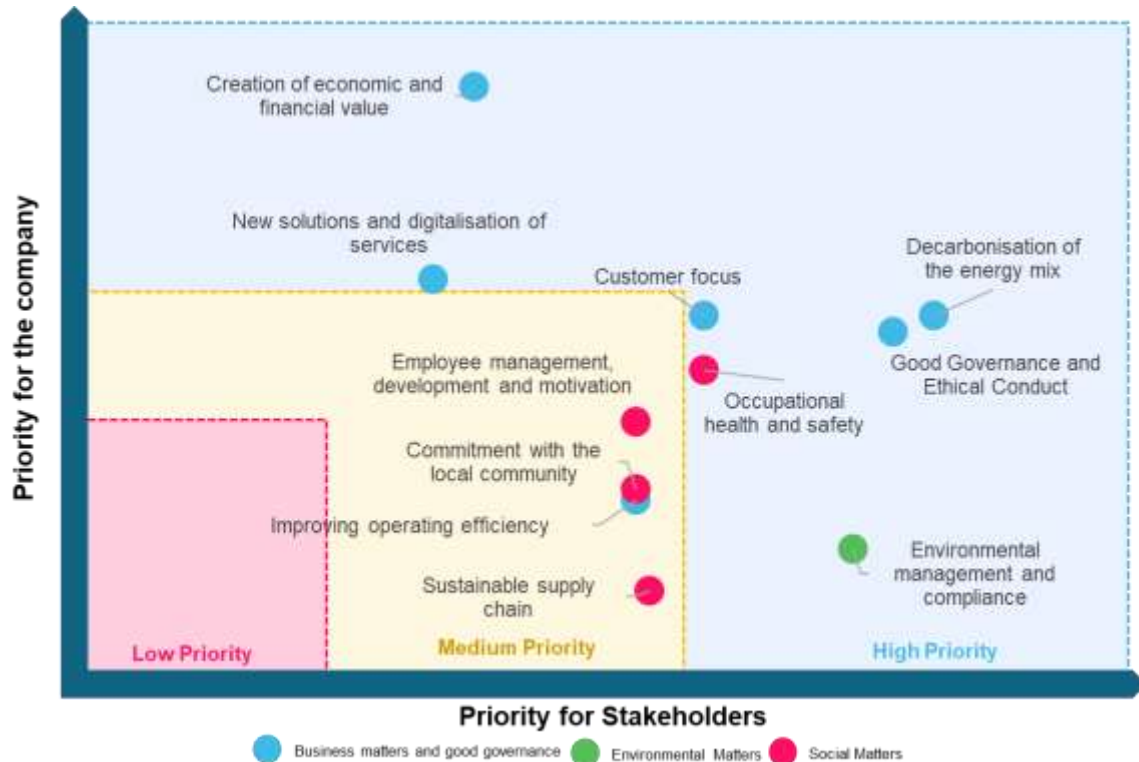
6.2. 2017 Materiality Study - Consult Stakeholders on Economic, Environmental and Social Matters.

In 2017, ENDESA performed a materiality study, which served as a base to define the priorities of its 2018-2020 Sustainability Plan. Accordingly, in 2017 almost 4,000 sources and representatives of 18 different stakeholders were directly and indirectly consulted, through the following analyses and reports:

- Analysis of trends in the energy and sustainability area, with a potential current or future effect on the Company's activity.
- Analysis of investors, proxy advisors and investment analysts on sustainability matters.
- Review of the assigned significance and degree of maturity of matters in the management of the main electricity companies.
- Analysis of media and social networks.
- Telephone enquiries to different external stakeholders.
- In-depth interviews with external stakeholders and focus group with industry and sustainability experts.
- Online enquiry to employees and focus group with key employees in the management of the Company's sustainability matters.
- In-depth interviews of senior management of ENDESA.

- Analysis of existing reports that include matters relating to the Company's sustainability: Corporate reputation report, employee climate survey and customer satisfaction survey.

The combination between the variables analysed in the materiality study performed, that is, relevance in the business strategy and priority for the stakeholders is expressed in the following chart:



As shown in the previous chart, among the most significant matters for the Company's sustainability are the creation of economic and financial value, the decarbonisation of the energy mix, good governance and ethical corporate code, customer guidance and the development of new solutions and digitalisation.

Furthermore, as a novelty with respect to the previous year, the level of satisfaction of the stakeholders with respect to these matters was analysed, identifying the decarbonisation and guidance to the customer among the matters that must be managed more actively.

Also, in accordance with the analysis of the business model, the sector and stakeholder expectations, different areas of involvement are identified, in which ENDESA must work to guarantee their sustainability in the coming years:

- *Industry response to climate change*: international commitments and technological development foster the decisive promotion of renewable energies and the progressive reduction of the weight of generation based on fossil sources in the energy mix.
- *Value creation models for the new energy scenario*: increased competition, technological development and new consumer requests will foreseeably lead the energy companies to transform their business model to one more focused on distribution -promoting its digitalisation- and marketing -developing and diversifying the service offering, especially in the area of renewables, energy efficiency, mobility and digital services-.

- *Reinforcement of social legitimacy*: the energy sector has a high level of public exposure, promoting greater social sensitivity in this regard. Accordingly, it is fundamental to carry on working to improve the social perception in order to continue competing in the new energy scenario.
- *Responsible business management*: increases the importance of environmental, social and governance matters in the determination of a responsible company. Noteworthy were the aspects related with the development of human capital, occupational health and safety, environmental management and the extension of sustainability to the supply chain.

In short, according to the stakeholders consulted, the creation of company value must be based on a series of necessary requirements to operate (such as corporate governance, environmental management, health and safety, the supply chain or relationships with the community) and include a series of items aimed at generating future value for the business (such as customer guidance, new business solutions, digitalisation and operating efficiency). All of this must be carried out on the basis of the promotion of an energy model free from emissions in 2050, through the continued pledge for the development of highly qualified human capital that enables the energy transition to be led.

7. ENDESA's Sustainability Plan.

7.1. ENDESA's 2017-2019 Sustainability Plan (PES).

To succeed in integrating sustainability into the management of the business and into the decision-making processes, there must be maximum alignment between the business strategy and the sustainability strategy, so that both are aimed at the attainment of the same objective and which are fed back to achieve it, thereby generating economic value for the Company in the short- and long-term.

Accordingly, ENDESA's 2017-2019 Sustainability Plan (PES) defined four priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan itself: decarbonisation of the energy mix; digitalisation of assets, customers and people; customer guidance and operating efficiency and innovation.

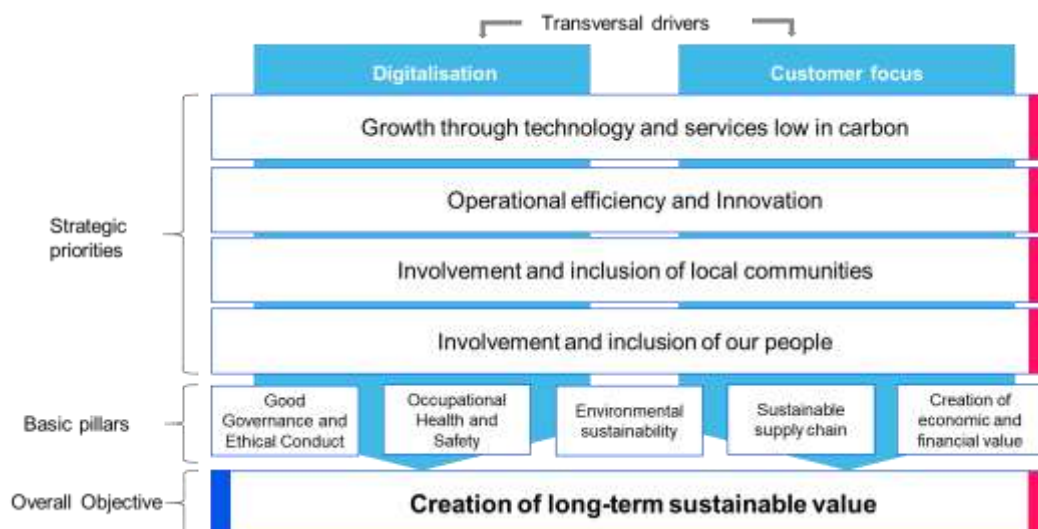
Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management throughout the entire value creation chain, five transversal strategic pillars were identified: integrity, human capital, occupational health and safety, environmental sustainability and responsible supply chain.

With more than 100 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2017-2019 Sustainability Plan (PES), and has achieved overall compliance of 93%.

As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA discloses compliance with its objectives and the courses of action in its 2017-2019 Sustainability Plan (PES) in this Statement of Non-financial Information (see following headings) and in the 2017 Sustainability Report, which will be available for consultation on its website.

7.2. ENDESA's 2018-2020 Sustainability Plan (PES).

On 22 November 2017, ENDESA presented the update of its 2018-2020 Strategic Plan to the investment community. Alongside this, and in order to achieve maximum alignment between the sustainability strategy and that of the business, ENDESA performed an analysis and a reflection, based on the results of the materiality study performed in 2017 for the design of its new 2018-2020 Sustainability Plan. This plan is based on the achievements and improvement opportunities identified in the previous plan, thereby indicating procedural priorities for the coming three years.



Accordingly, the new ENDESA's 2018-2020 Sustainability Plan (PES) seeks to promote the creation of sustainable value at long term, through the setting of:

4 strategic priorities:

- ***Growth through technology and services low in carbon:*** Based on the road map towards decarbonisation in 2050 defined in the previous plan, the new plan includes more ambitious objectives in favour of the development of renewable energy.
- ***Optimisation of assets and innovation:*** Through the open innovation approach, the PES includes lines of action aimed at promoting the attraction of foreign talent and at exploring new partnership channels to develop sustainable business solutions. Likewise, the objectives aimed at promoting efficiency throughout the value creation chain are maintained.
- ***Involvement and inclusion of local communities:*** Through a Shared Value Creation Approach, the Sustainability Plan includes new objectives aimed at promoting socio-economic development, education and access to energy as fundamental axes of its commitment to the local communities.
- ***Involvement and inclusion of our people:*** Given the strategic nature of human capital in a climate of change, such as that currently being experienced by the energy sector, ENDESA maintains and includes new objectives in the area of talent development, employment satisfaction, diversity and achieving a life-work balance.

2 transversal drivers:

- ***Digitalisation:*** The new ENDESA's Sustainability Plan reinforces and increases ENDESA's commitment to the promotion of the digital transformation and establishes more ambitious objectives in the three main axes in which it works: digitalisation of generation and distribution

assets, the development of an internal digital culture and the digitalisation of the customer. Furthermore, it includes action lines in the area of cybersecurity.

- **Customer guidance:** The new ENDESA's Sustainability Plan includes investment and growth objectives in the development of sustainable energy solutions aimed at responding to new customer requirements, and at maintaining a high level of excellence in customer relations and service quality.

5 basic pillars:

- **Good governance and ethical conduct:** The Sustainability Plan establishes action lines to maintain a high level of excellence in compliance with its commitments and ethical responsibilities and in the implementation of good corporate governance practices.
- **Occupational health and safety:** The Sustainability Plan sets objectives aimed at reducing the accident rate of employees and contractors, and at promoting healthy habits.
- **Environmental sustainability:** The Sustainability Plan sets objectives to reduce the Company's environmental footprint throughout the whole scope of its activity.
- **Sustainable supply chain:** The Sustainability Plan establishes action lines aimed at supervising environmental, security and human rights parameters in the selection of suppliers and contractors.
- **Creation of economic and financial value:** As a fundamental aspect, the Sustainability Plan includes the financial objectives defined in ENDESA's 2018-2020 Strategic Plan.

In short, the 2018-2020 Sustainability Plan includes over 100 quantitative management objectives, many of which originate from the previous plan, although they have been reviewed and, in many cases, increased, together with the new objectives to respond to the new requests from stakeholders and from the energy industry.

The most significant objectives of the 2018-2020 Sustainability Plan are detailed in the following headings of this Statement of Non-financial Information, while all the objectives will be detailed in the 2017 Sustainability Report and on the corporate web page www.endesa.com.

RISK MANAGEMENT

1. Risk Control and Management Policy.

The Risk Management and Control Policy, approved by the Board of Directors and applied at ENDESA and all subsidiaries, involves guiding and directing all strategic, organisational and operating activities to enable the Board of Directors to identify precisely the acceptable risk level, with a view to the managers of the various business lines maximising the Company's profit, maintaining or increasing its assets and equity and the certainty of this occurring above certain levels, preventing future uncertain events from undermining the Company's profit targets.

The Risk Management and Control Policy defines ENDESA's risk control system as an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from the consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enabling the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and the appropriate use of capital.

The Risk Management and Control Process is based partly on the ongoing study of the risk profile, applying current best practices in the energy sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, always respecting an appropriate balance between the risk assumed and the targets set by the Board of Directors.

The comprehensive risk management process consists of the identification, measurement, analysis and monitoring of different risks, together with their monitoring and control over time, based on the following procedures:

- Identification. The purpose of identifying risks is to maintain a prioritised and updated database of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- Control. The aim of the risk control is to guarantee that the risk assumed by ENDESA is in line with the targets set, in the last instance, by the Board of Directors of ENDESA, S.A.
- Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

This process sets out to secure an overview of risk to assess and prioritise risks. It covers the main financial and non-financial risks to which the Company is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks identified and establishing regular reviews.

Moreover, due to the increased interest in the control and management of the risks to which the companies are exposed, and given the complexity being acquired from identifying this from a comprehensive point of view, the participation of employees is important at all levels of this process. A risk mailbox has now been created for employees to help identify market risks and come up with suggestions for measures to mitigate them, thereby complementing the existing top-down risk management and control systems and mailboxes and specific procedures to send in communications in connection with breaches of ethical conduct, criminal risks and employment risks.

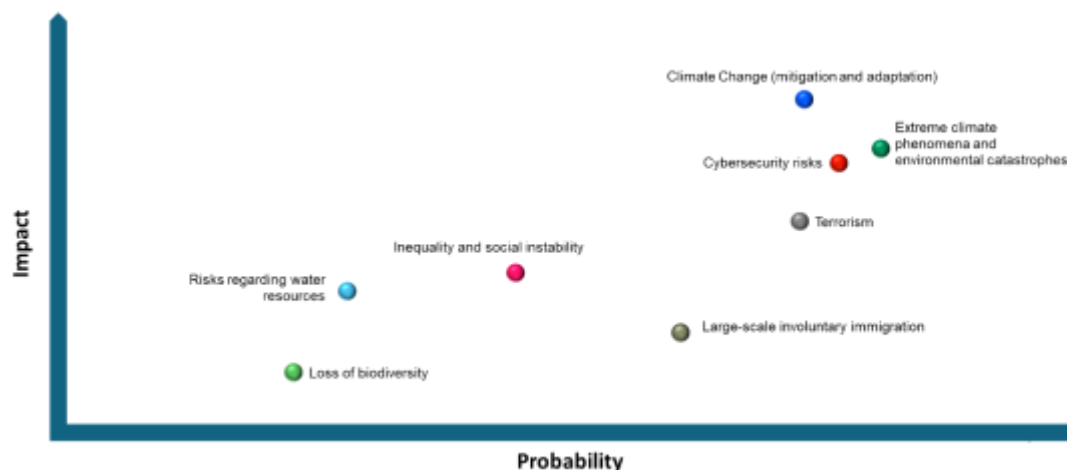
Furthermore, the Board of Directors of ENDESA, S.A. also approved a Tax Risk Management and Control Policy to guide and direct all strategic, organisational and operating activities to enable the Board to identify precisely the acceptable tax risk level, to ensure that the tax managers meet the objectives set by the Risk Management and Control Policy in respect of tax risks. The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A., and is available on its website at www.endesa.com.

2. Main Sustainability Risks - Impacts of Risks and Opportunities Related with Environmental, Personal and Social Matters.

ENDESA is exposed to certain risks, which it manages by applying risk identification, measurement, control and management systems. In this regard, the different types of risk, financial and non-financial (among others, operational, technological, legal, social, environmental, political and reputational risks) faced by the Company are taken into account. These aspects are included in the Company's risk management and control system, and are supervised by the Board of Directors' Audit and Compliance Committee.

In 2017, ENDESA updated the identification of emerging sustainability risks with a medium- and long-term impact related with certain of the dimensions of sustainability. The objective is to analyse the impact on the business and to establish the measures required for their control and prevention.

In this regard, ENDESA has taken the identification of global risks prepared by the World Economic Forum as a reference, based on enquiries to almost 1,000 experts on the perception of global risks. This map was adjusted to the context of ENDESA's operations, based on enquiries made by the Company to stakeholders as part of the materiality study, thereby enabling the most significant sustainability risks to be identified.



Risk	Description	Potential impact on ENDESA	Main Management and Mitigation Measures
Climate change (adaptation and mitigation)	The measures being adopted by the States and the business sector to fight against climate change may be insufficient to mitigate and adapt such change.	Increased regulatory requirements to accelerate the transition towards an energy mix free from greenhouse gas emissions (rise in production cost overruns as a result of using fossil fuels).	ENDESA has established a road map towards decarbonisation in its energy mix in 2050, which implements interim CO ₂ emission reduction objectives for 2020, 2030 and 2040. This road map is based on a clear pledge for renewable energy, on the maintenance of nuclear energy and on the optimisation of thermal generation assets during the transition.
Extreme climate phenomena and environmental catastrophes	Climate change is generating phenomena associated with the increased occurrence and intensity of adverse meteorological phenomena (floods, storms, etc.).	Incidences on distribution grids and on generation plants as a result of adverse meteorological phenomena.	ENDESA has environmental management systems for all its generation and distribution assets certified by ISO 14001, aimed at promoting excellence in environmental management and going beyond environmental legislation requirements. Moreover, the Company assesses the impacts of climate change on infrastructures in order to establish adaptation measures to minimise risks.
	Also, the increased incidence of environmental catastrophes caused by nature itself (tsunamis, earthquakes, etc.), or by man (industrial spillages, air and/or radioactive pollution, etc.) has a considerable impact on business activity.	Environmental penalties arising from the potential causing of environmental catastrophes in the operation of electricity plants or of the distribution grid (fires, radioactive emissions)	ENDESA has environmental liability and third-party liability insurance policies in place to cover any possible breaches of environmental regulations and to cover the claims arising from damage to third parties.
Cybersecurity risks	The digital transformation involves greater exposure to potential cyber attacks, which may endanger the security of IT systems and databases with sensitive information.	Economic losses and reputational impacts arising in the event ENDESA's information systems are affected by a cyber attack. Likewise, the Company's critical infrastructure may also be exposed to this type of attack, which could have a serious impact on the essential services provided (for example, nuclear plants).	ENDESA has a cyber-security strategy, in keeping with international standards and government initiatives. As part of this strategy, ENDESA performs an assessment of the main risks and identifies vulnerabilities, and also conducts an exhaustive digital monitoring through which the information is analysed and remedial measures are implemented to mitigate risks.
Terrorism	The geopolitical situation in certain countries and the extremist religious movements are generating a rise in terrorist attacks in developed countries.	Increased risk to critical infrastructures that may potentially be subject to terrorist attacks, such as nuclear plants	ENDESA has put into place a critical infrastructure security management system, coordinated with the State Security Forces.
Large-scale involuntary immigration	Conflicts and poverty in developing countries (especially Africa and the Middle East) are causing an increased flow of involuntary immigration in European countries.	High incidence of non-payment and loss of earnings, due to the lack of ability of increasing layers of society to pay their energy bills.	ENDESA reaches agreements with the public authorities to avoid the cut-off of supply to vulnerable customers and thereby reduce the risk of non-payment.
Inequality and social instability	Inequality is increasing worldwide which, in the case of Spain and Portugal, is accentuated by the high levels of unemployment.	High incidence of non-payment and loss of earnings, due to the lack of ability of increasing layers of society to pay their energy bills.	ENDESA is implementing different measures to facilitate the access to energy of vulnerable groups.
	Likewise, the social instability caused by the lack of leadership and the weakness of the representative democracy, together with the increased capacity of people to organise and increase demands from governments and companies, is contributing to strengthen civil society.	Likewise, the social instability and the strength of the civil society are increasingly calling the Company's activities into question, and the latter needs to increase the intensity of its communication with society, developing more participative relationship models therewith.	Furthermore, the Company is implementing a Shared Value Creation Methodology within its local operations in order to improve relationships with stakeholders at local level.
Loss of biodiversity	Due to increased demographic pressure and human activity, characterised by a high consumption of natural resources, ecosystems are losing biodiversity.	Increased environmental requirements to develop new electricity generation and distribution projects.	ENDESA has implemented a biodiversity conservation programme that includes procedures relating to its generation assets. Furthermore, biodiversity conservation forms part of the environmental impact studies conducted in light of new industrial projects and of environmental management systems for existing assets.
Risks regarding water resources	The demographic explosion and consumer patterns of society today place greater pressure on natural resources, especially water.	Restrictions on the use or availability of water for electricity generation.	ENDESA includes, in its environmental management systems, procedures aimed at promoting efficiency in the consumption of water resources.

RESPECT FOR HUMAN RIGHTS

1. Management Focus: Human Rights Policy at ENDESA.

ENDESA has a permanent commitment to the respect and promotion of human rights. This commitment is reflected in its corporate policies and shown by its adhesion to the United Nations Global Compact, the two first principles of which include supporting and respecting the protection of human rights and non-complicity in human rights abuse. Moreover, since it was founded, ENDESA has been a pioneer in activities that ensure respect for human rights in its lines of business and its supply chain, by developing continuous processes to identify risks and potential impacts regarding human rights.

Following the approval of the Guiding Principles on Business and Human Rights by the United Nations, ENDESA decided to formally adapt their historical commitment to respect for and the promotion of human rights to this new framework, integrating it into the management of business activities.

Thus, in 2013 the Board of Directors of ENDESA, S.A. approved the following human rights policy, in line with the recommendations established in the Guiding Principles. This policy covers ENDESA's commitment and responsibilities with regard to all human rights, especially those that affect its business activity and operations carried out by ENDESA workers, whether executives or employees. In addition, the Company encourages its contractors, providers and trade partners to adhere to the same principles, focusing particularly on conflictive and high-risk situations.

The policy consists of eight principles covering two large areas, which are labour practices and communities and companies:

Labour practices:

- Freedom of association and collective bargaining.
- Rejection of forced or mandatory labour and child labour.
- Respect for diversity and non-discrimination.
- Occupational health and safety.
- Fair and favourable working conditions.

Communities and societies:

- Respect for community rights.
- Integrity: zero tolerance against corruption.
- Privacy and communications.

The policy is available at www.endesa.com.

2. The Due Diligence Process.

With the aim of applying the commitments included in its human rights policy, and following the recommendations of the Guiding Principles, ENDESA is committed to establishing appropriate due diligence processes that guarantee their implementation and tracking, thereby evaluating any

existing effects and risks associated with human rights and implementing measures to mitigate these.

Along these lines, ENDESA carried out a due diligence process in 2017 to assess the level of compliance with its policy and the Guiding Principles. This process has been implemented throughout its business activity in Spain, including electricity generation, distribution and supply activities, as well as supply chain management, asset purchasing processes and corporate functions.

This process was developed initially by identifying the level of country risk, with a subsequent assessment of the real and potential impacts of ENDESA's activity on human rights and, finally, by designing an action plan.

2.1. Country-Level Risk Identification.

To understand the human rights context of ENDESA's operations and identify those matters that, given regulatory and social conditions and requirements, may involve higher initial risk, ENDESA consulted more than 50 experts from a wide variety of professional areas, such as: United Nations, civil society, learning institutions, citizen groups, clients and supply chain.

This allowed the Company to classify each of the principles included in the human rights policy according to the level of non-compliance risk in Spain - primarily conditioned by the degree of implementation of current legislation and the country's social context-, in which the Company operates.

2.2. Evaluation of Impacts on ENDESA's Business Activity.

The purpose of the second phase of the process was to analyse ENDESA's value creation chain, to identify the Company's real and potential effects on each of the aspects included in the human rights policy and applicable Guiding Principles. Action has been taken at two levels in this regard:

- In-depth interviews were conducted with Senior Management and the Board of Directors to analyse the "state-of-the-art" of integration of respect for human rights in the Company's daily operations, thereby identifying potential risks and opportunities.
- An internal evaluation of the Company's policies, procedures, systems and practices in each business and management area, starting with the analysis of over 130 indicators that measure performance in the various human rights aspects associated with business management.

This analysis revealed that ENDESA has in place a set of very robust management mechanisms and systems with which it guarantees respect for human rights and adequate management of existing risks. The most important results and management mechanisms in place are summarised below:

Matters		Management and Maturity Level at ENDESA ⁽¹⁾	Risk Management Mechanisms
Freedom of Association and Collective Bargaining		Robust	More than 90% of the workforce is covered by collective bargaining agreements with the various syndicated organisations. The functions of these organisations and the right to union activities are explicitly included in the collective bargaining agreements. Moreover, these labour conventions are adapted to the existing International Labour Organisation (ILO) conventions ratified by Spain.
Rejection of Forced or Mandatory Labour and Child Labour		Robust	Management systems and human rights procedures guarantee the absence of minors in the workforce. Currently, the youngest employee is 22 years old. Employee hiring conditions are clearly set forth in the contract and the collective bargaining agreements regulate overtime, including a commitment to remunerate such overtime and to minimise the number of hours as far as possible.
Respect for Diversity and Non-Discrimination		Robust	ENDESA has in place a diversity and inclusion policy and action plan that set the goals and lines of action in four areas (gender, age, nationality and disability). The aim is to disseminate a culture that draws attention to diversity as a value generating asset. The collective bargaining agreement also regulates the Company's equality plan.
Occupational Health and Safety		Robust	ENDESA workplace occupational health and safety management systems are certified by the international standard OHSAS 18,001. These systems establish the appropriate steps required to manage the inherent risks of ENDESA's industrial activity and to reduce accidents rates. Occupational risk prevention is also integrated into activities, processes, practices and facilities throughout all the Company's management bodies.
Fair and Favourable Working Conditions		Robust	Working conditions are regulated by the collective bargaining agreements with the various syndicated organisations. In addition, the various human resources management mechanisms and procedures are focused on providing working conditions that exceed the requirements established by current legislation.
Respect for Community Rights	Responsible relationships with the communities	Robust	ENDESA is currently implementing a Shared Value Creation Methodology in the management of its local operations, through which it integrates the expectations of local communities in asset management and seeks solutions that generate value at the Company, thereby contributing to obtain the "social licence" to operate. This methodology is implemented over the whole useful life of the asset.
	- Security management	Robust	ENDESA uses private security companies in accordance with current regulations. Security services are provided by external staff, duly accredited and authorised by the Ministry of the Interior. The training of such staff includes private security legislation, the basic rights of people and human rights. Likewise, they are periodically submitted to revision and assessment processes by the State security forces
	Environment	Robust	ENDESA has implemented environmental management systems certified by ISO 14001 for all its electricity generation and distribution activities. Through such systems, the Company establishes environmental surveillance plans and on-going improvement measures that go beyond current regulatory requirements.
Integrity and Ethical Conduct		Robust	ENDESA has in place a Code of Ethics, a Zero Corruption Tolerance Plan and other rules, in accordance with the most advanced "compliance" models. Furthermore, among other aspects, ENDESA has established specific procedural protocols to guide the actions of its employees in relation to the acceptance and offering of gifts and courtesies, and to dealings with civil servants and authorities. Likewise, ENDESA has a Criminal Risk Prevention model that complies with the regulations applicable to the Group in the area of the criminal liability of the legal entity. This model was certified in 2017 in line with the UNE 19601:2017 standard. Lastly, since 2017, the Company has a legal compliance and anti-bribery policy, together with an anti-bribery management system certified by the UNE-ISO 37,001-2017 standard.

(1) Level of management and maturity of the systems implemented to minimise the impacts in the different human rights areas assessed, in line with the following scale: Robust (75% - 100%); Good (50% - 75%); Basic (25% - 50%); Poor (0% - 25%).

During the due diligence process, the extension of the commitment to human rights was also analysed over the whole value creation chain, including the supply chain and responsible relationships with customers. The main mechanisms for the management of both aspects are detailed below:

Aspect	Management Mechanisms
Supply Chain	
Management of Suppliers and Contractors	The general recruitment conditions include obligations for suppliers and contractors in relation to respect for human rights during the provision of the service arranged by ENDESA. Also, since 2017, the supplier rating process includes human rights assessment criteria for families of suppliers with greater risks. If necessary, it is expected to perform on-site audits and visits, and for the suppliers to establish improvement plans and, where appropriate, the loss of rating and the possible termination of the agreement.
Fuel Provision	The electricity sector must be supplied with fossil fuels that originate, in many cases, from countries with less stable legal frameworks and with a greater risk of a breach of human rights. Accordingly, ENDESA systematically analyses counterparties prior to the arrangement of such services. This analysis enables significant disputes to be identified that could lead to legal and reputational risks for the Company and includes items related with human rights. Likewise, in recent years, the civil society has exercised significant pressure regarding coal mining, transferring such pressure to the electricity companies (especially the European companies) that use this fuel to operate their thermal plants. ENDESA, as part of the ENEL Group, forms part of the Bettercoal initiative. Promoted by a group of European electricity companies, this worldwide vocation initiative seeks to promote on-going improvement of corporate responsibility in the coal supply chain, including human rights as one of its main elements. Accordingly, the mining companies must adopt the Bettercoal code and implement a series of good practices and submit themselves to assessment and on-going improvement processes.
Responsible Relationships with the Customer	
Privacy and Communications	ENDESA has in place a system certified by AENOR to handle sales advisers and customer care employees that lean on a specific code of ethics aimed at ensuring that the commercial activity complies with the prevailing legislation, respects private life, guarantees the protection of minors and respects those that do not wish to receive sales information. With regard to personal data protection, ENDESA has set up appropriate surveillance and review systems and mechanisms to comply with the Data Protection Law. With respect to advertising notices, an internal control system exists that seeks to minimise risks and avoid messages that may offend human dignity or human rights.
Access to Energy of Vulnerable Customers	ENDESA recognises the essential role that access to energy has to guarantee compliance with human rights, since it is directly related with the well-being of people and their quality of life. In this regard, the States' main responsibility is to guarantee sustainable, secure and attainable access to basic energy services. However, the electricity sector can contribute to this purpose and thereby promote inclusive and sustainable social and economic development. In this context, ENDESA is aware of the serious problem caused by the inability of many Spanish families to pay their energy bill; hence, the Company has been the pioneer in the signing of agreements with the public authorities to guarantee supply to vulnerable customers, reaching more than 230 agreements in 2017. Furthermore, the Company performs different procedures aimed at promoting energy efficiency and savings in the electricity bill of this type of group.

3. Opportunities for Improvement and Action Plan.

During the assessment of compliance with the human rights policy and its alignment with the Guiding Principles, a series of improvement opportunities were identified to strengthen the Company's commitment with respect to human rights in the performance of its industrial and commercial activity.

Accordingly, these improvement opportunities are classified into four areas: reinforce and publicise ENDESA's human rights commitment; promote, among employees, the integration of human rights in business activities; strengthen relationships with local communities; and extend commitment and control to the value chain.

In order to respond to these four procedural areas, an action plan has been defined that contains 27 actions, which will be developed over 2018, and which will be monitored by the Board of Directors of ENDESA, S.A., through the Audit and Compliance Committee. Accordingly, this action plan constitutes one of the main procedures to be developed by the Company in 2018, to continue progressing in the integration of sustainability in the Company's strategy and in its daily activities.

Some of the most significant actions are detailed below:

Area of Improvement	Main Procedures
Reinforce and spread ENDESA's commitment to human rights, both to external stakeholders and employees.	- Inclusion of the human rights policy in the series of internal policies and preparation of an organisational procedure to manage due diligence processes. - External publication of ENDESA's commitment to human rights and the procedures being conducted by it.
Promote, among employees, the integration of human rights in ENDESA's business activities.	- Training on human rights to ENDESA's workforce - Fostering of diversity programmes and inclusion and promotion of improved diversity ratios - Improvement of safety rates (frequency, seriousness and fatal accidents)
Strengthen relationships with local communities.	Continuation of the implementation of mechanisms and actions to manage relationships with the communities in electricity generation and distribution activities.
Extend commitment and control to the value chain.	- Development of methodology for human rights audits to suppliers - Continuation of the extension of human rights assessment criteria in asset purchases.

4. Complaints and Claims Mechanisms.

ENDESA's human rights policy envisages that when any person related to ENDESA, be he/she an employee or external person, considers that a situation exists that is contrary to that included in its own policy, he/she may inform the Company's Audit Function.

During the processing of such notices, the Audit Function will act to protect the informants against any type of reprisal, understood to be any act that may give rise to a mere suspicion that the person in question may be subject to any type of discrimination or penalisation. Furthermore, the confidentiality of the informants' identity is guaranteed, except when the applicable legislation stipulates otherwise.

Moreover, for certain matters related to the employment area, ENDESA has the required mechanisms to establish an on-going dialogue with the different trade union organisations through which claims or complaints can be transmitted to the Company. Also, through Open Power's strategic positioning, ENDESA seeks to establish a more continuous and intimate dialogue with the organisations of the civil society, through which complaints or suggestions can also be received on human rights matters. In this regard, noteworthy is the existence of a sustainability mailbox through which any stakeholder can contact the Company.

In any case in which, based on a notice of this type, it is determined that the principles of this Policy have been breached, the corresponding procedure envisaged in the Code of Ethics will be applied. Likewise, ENDESA is committed to developing the appropriate rectification mechanisms, without affecting access to other judicial and non-judicial mechanisms that may exist.

5. Cases of Discrimination and Corrective Measures Taken.

In 2017, there were two complaints regarding mobbing or corporate climate and human rights management, but they were both shelved as they were deemed to have no grounds.

CORPORATE GOVERNANCE

1. Diversity of Competences and Viewpoints of Members of the Boards of Directors, Management and Supervision by Age, Gender and Educational and Professional Background.

1.1. Breakdown of the Highest Governing Body.

Breakdown of ENDESA'S Board of Directors at 31-12-2017			
Position on the Board	Name or Corporate Name of Director	Category of Director	Date of First Appointment
Chairman	Borja Prado Eulate ⁽¹⁾	Executive	20/06/2007
Deputy Chairman	Francesco Starace	Proprietary	16/06/2014
Chief Executive Officer	José D. Bogas Gálvez	Executive	07/10/2014
Director	Alejandro Echevarría Busquet	Independent	25/06/2009
Director	Ms Helena Revoredo Delvecchio	Independent	04/11/2014
Director	Miquel Roca Junyent	Independent	25/06/2009
Director	Ignacio Garralda Ruiz de Velasco	Independent	27/04/2015
Director	Francisco de Lacerda	Independent	27/04/2015
Director	Enrico Viale	Proprietary	21/10/2014
Director	Alberto de Paoli	Proprietary	04/11/2014
Director	Ms María Patrizia Grieco	Proprietary	26/04/2017
Secretary	Borja Acha Besga	-	01/08/2015

(1) Appointed as Chairman on 24/03/2009.

Directors	Qualities and Skills					Diversity			
	Finances and Risks	Engineering	Legal	Management	Strategy	Years in the Position	Nationality	Gender	Age
Borja Prado Eulate	✓	□	✓	✓	✓	10	ESP	H	61
Francesco Starace	✓	✓		✓	✓	3	ITA	H	62
José D. Bogas Gálvez	✓	✓		✓	✓	3	ESP	H	62
Alberto De Paoli	✓	□		✓	✓	3	ITA	H	52
Miquel Roca Junyent	✓ *	□	✓	✓	✓	8	ESP	H	77
Alejandro Echevarría Busquet	✓	□		✓	✓	8	ESP	H	75
María Patrizia Grieco	✓	□	✓ *	✓	✓	1	ITA	M	65
Enrico Viale	✓	✓		✓	✓	3	ITA	H	60
Helena Revoredo Delvecchio	□ □	□		✓	✓	3	ARG	M	70
Ignacio Garralda Ruiz de Velasco	✓	□	✓	✓	✓	2	ESP	H	66
Francisco de Lacerda	✓	□		✓	✓	2	PORT	H	57

1.2. Appointment and Selection of the Highest Governing Body.

Article 9 of the Board of Directors' Regulations Selection, appointment, ratification and re-election of directors stipulates that: *"At the proposal of the Appointments and Remuneration Committee, the Board of Directors will approve a specific and attestable policy for selecting candidates for the role of director, which ensures that the proposed appointments of directors are based on a prior analysis of the Board's requirements, and favours diversity of knowledge, experience and gender."*

In this regard, on 10 November 2015, the Board of Directors approved a precise and attestable directors' selection policy (amended on 18 December 2017, in order to technically improve the content of the policy and the adaptation to best corporate governance practices), which pursues the integration of different experiences and professional management competences (including those that are specific to the activities carried on by the Company, and those of an economic-financial and legal nature), also promoting gender and age diversity as far as possible.

Likewise, pursuant to article 9 of the Board of Directors' Regulations, *"proposals for the appointment, ratification or re-election of directors formulated by the Board shall be made in*

respect of persons of recognised prestige, who possess the adequate professional experience and knowledge to perform their duties, and who assume a commitment of sufficient dedication to perform the tasks of the former.

The General Shareholders' Meeting or, where appropriate, the Board will be competent to appoint members, in conformity with that stipulated in the Spanish Corporate Enterprises Act and in the articles of association. The position of director may be renounced, revoked and re-elected.

The proposed appointment, ratification or re-election of directors made by the Board of Directors to the General Shareholders' Meeting, or which the Board of Directors itself approves in the first case, shall be made at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and following a report by said Committee for all other types of directors".

1.3. Diversity in Governing Bodies.

Article 5 of the policy for the selection of directors (approved on 10 November 2015 and modified on 18 December 2017, with the aim of improving the technical content of the policy and adapting it to the best corporate governance practices) sets forth the Company's commitment to promote gender diversity: *"ENDESA is convinced that diversity, in all its facets and at all levels of its professional team, is an essential factor to ensure the Company's competitiveness and a key component of its corporate governance strategy that not only encourages critical stances, but also the expression of diverse viewpoints and positions and the analysis of their positive and negative characteristics.*

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximising the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the Organisation, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the director selection policy will promote the goal of ensuring that the number of female directors represents, at least, 30% of the total members of the Board of Directors by 2020."

FIGHT AGAINST CORRUPTION AND BRIBERY

1. Material Aspects and Objectives.

1.1. List of Material Aspects.

Integrity and ethical conduct are fundamental pillars that guarantee the responsible management of a company. In recent years, the ethical conduct of listed companies has come under increased scrutiny by markets, regulators and society in general. Among other factors, ENDESA's financial performance is conditioned by strict compliance with ethical standards and principles, both internally and as regards its external relationships. Thus, ENDESA's ethical conduct has paved the way for the generation of trust among its shareholders and investors, and has become a differentiating factor of the company brand in building customer loyalty, evidenced by its economic results which, in turn, contribute to consolidate ENDESA's leadership and benchmark status in the market.

Enquiries conducted by ENDESA in 2017 with its most significant stakeholders revealed the following primary aspects associated with management of integrity and ethical conduct: integrity in the organisational model and management of good corporate conduct, transparency in communications (financial, tax-related and sustainability) and relationships with institutions.

1.2. How the Organisation Manages Material Aspects - The Results of our Goals. ENDESA'S 2017-2019 SUSTAINABILITY PLAN (PES).

Through its Sustainability Plan and the implementation of its ethics compliance model, ENDESA meets these expectations and establishes objectives and measures to fulfil this purpose.

Described below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2017-2019 Sustainability Plan, associated with ethical conduct priorities, as well as the new objectives established in the framework of ENDESA's new 2018-2020 Sustainability Plan.

The complete details of all the integrity and ethical behaviour objectives included in the Sustainability Plans can be found in the 2017 Sustainability Report, at www.endesa.com.

Fulfilment of the main integrity and ethical conduct objectives in ENDESA's 2017-2019 Sustainability Plan (PES).

Area 2017-2019 PES	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Integrity and Ethical Conduct	Annual verification of the effectiveness of the Criminal Risk Prevention Model (% of verification)	100%	100%	100%
	% of employees trained in ethical conduct in the last three years	90%	90%	100%
	A benchmark in the industry and one of the most valued companies for its ethical, upright and flawless conduct (DJSI score)	>95/100	96/100	100%
	% of verifiable complaints analysed in a period not exceeding 90 days	100%	100%	100%

New integrity and ethical conduct objectives for ENDESA's 2018-2020 Sustainability Plan (PES).

Area 2018-2020 PES	Description of the objective	2018 objective	2020 objective
Integrity and Ethical Conduct	Annual verification of the effectiveness of the Criminal Risk Prevention Model (% of verification)	100%	100%
	% of employees trained in ethical conduct in the last three years	95%	100%
	A benchmark in the industry and one of the most valued companies for its ethical, upright and flawless conduct (DJSI score)	95/100	95/100
	% of verifiable complaints analysed in a period not exceeding 90 days	100%	100%
	Certification of the Criminal and Anti-Bribery Risk Prevention Model, as per UNE 19601 and UNE-ISO 37001	100%	100%

2. Policies implemented by the Company regarding Corruption and Bribery.

ENDESA is fully committed to complying with the ethical principles and all current legislation and regulations governing its relationships with its stakeholders, and in all the activities it undertakes.

The Company has in place a Code of Ethics, a Zero Corruption Tolerance Plan and other rules, in accordance with the most advanced "compliance" models, which set forth the values, commitments and ethical responsibilities taken on by all its employees. Furthermore, among other aspects, ENDESA has established specific procedural protocols to guide the actions of its employees in relation to the acceptance and offering of gifts and courtesies, and to dealings with civil servants and authorities.

Likewise, ENDESA has a criminal offence prevention model that complies with the regulations applicable to the Group in the area of the criminal liability of the legal entity. The document entitled "General Principles for the Prevention of Criminal Risk" contains a summary of the guiding principles of action also applicable to all employees. These encompass the key Company values to achieve its business objectives and to prevent the occurrence of criminal risks within the Company.

The Code of Ethics, the Zero-Tolerance Plan Against Corruption, the General Principles for Criminal Risk Prevention, the Protocol for Best Practices in Dealing with Civil Servants and Public Authorities and the Corporate Integrity Protocols can be found on the website: <https://www.endesa.com/es/inversores/a201611-conducta-etica.html>.

2.1. Code of Ethics.

The Code of Ethics is comprised by:

- 16 General Principles governing relations with stakeholders that define ENDESA's benchmark business values.
- The Standards of Conduct for dealing with each stakeholder, enshrining the specific guidelines and rules that ENDESA employees must adhere to in order to uphold the general principles and avoid unethical behaviour.
- The Implementation Mechanisms, describing the organisational structure of the Code of Ethics, responsible for ensuring that all employees are aware of, understand and comply with the Code.

Likewise, as established by the Code of Ethics, ENDESA does not finance political parties, their representatives or candidates, either in Spain or abroad, nor does it sponsor conferences or parties whose sole purpose is political propaganda.

It abstains from any manner of direct or indirect pressure on political exponents (e.g., resulting from public tender awards to ENDESA, acceptance of suggestions for contracts, consultancy agreements, etc.).

2.2. Zero Tolerance Plan against Corruption.

ENDESA has an anti-corruption plan in place: the Zero Tolerance Plan against Corruption, which represents the Company's specific commitment to the fight against corruption and its total rejection of any of its forms, in compliance with Principle 10 of the Global Compact, of which ENDESA is a signatory. "Businesses should work against corruption in all its forms, including extortion and bribery".

2.3. Anti-Bribery Policy.

In 2017, the “Criminal and Anti-Bribery Regulatory Compliance Policy” was included in these internal regulatory instruments which, together with those cited above, constitute the ENDESA Group's "Criminal and Anti-Bribery Regulatory Compliance Management System", which is an integrated body of provisions that not only comply with the Spanish legal requirements in this area, but which are also sufficient to meet the expectations reasonably deposited in the organisations that operate with the highest levels of commitment in advanced markets as the ENDESA Group does.

ENDESA is aware that certain criminal acts identified under the generic name of "bribes" constitute a phenomena which, among other effects, raises serious moral, economic and political concerns, undermines good governance, hinders development, destroys confidence in the institutions and interferes in the correct and efficient functioning of markets. Accordingly, the Criminal Regulatory Compliance System pays special attention to the prevention, detection and adequate reaction against such strictly forbidden conduct, transmitting the importance of the contribution of the entire Organisation to the fight against all manner of “bribery”.

The main procedures that ENDESA will perform on an on-going basis to effectively apply the Criminal Regulatory Compliance System are as follows;

- Evaluation of risks and control activities. The identification of activities in which criminal offences may be committed are coordinated by the Supervision Committee and by the process heads within the Organisation.
- Supervision activities: Criminal Regulatory Compliance System, action plans to affront shortcomings, response to non-compliance and information and communication.

2.4. Criminal Risk Prevention Model.

Endesa has a Criminal Risk Prevention Model, which provides the Company with a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the Company, complying with the Spanish Criminal Code on the criminal liability of legal persons, a system introduced into the Spanish legal system in 2010.

The Audit and Compliance Committee is tasked with supervising the functioning of and compliance with the Model and the functions of the Supervision Committee, responsible, among other tasks, for the monitoring of and compliance with the Model. The Supervision Committee consists of the General Audit Director, the General Secretary and the Secretary of the Board of Directors (who is the Committee Chair), the Director of Corporate Legal Counsel and Compliance, the Director of Business Legal Counsel and the Director of Human Resources and Organisation.

In 2017, the Supervision Committee met on six occasions and, at those sessions, it monitored the main matters relating to the Criminal Risk Prevention Model, even envisaging the involvement of heads from different areas of the Company to inform the Committee on significant matters relating to its competencies.

At the beginning of each year, the Supervision Committee prepares an Activity Programme, in which it establishes priorities in line with qualitative criteria based on a risk approach, for the development of which, and based on the powers granted and on the specialisation required, it leans on the Audit, Legal Advisory and Human Resources and Organisation Departments. Furthermore, once a year, it submits a report on the execution of the programme to the Audit and Compliance Committee, including details of the activities performed and the conclusions reached.

Noteworthy among the activities performed in 2017 were as follows:

- The review, update and assessment of events involving the risk of offences and the adaptation and update of their mitigating controls included in the Model's matrix;
- Verification of the adequate effectiveness and functioning of the Criminal Risk Prevention Model, through a review of the adequate design and operation and testing of certain control activities;
- The performance of various initiatives aimed at informing and training employees on the framework of ethical reference and of criminal prevention compliance in force at ENDESA;
- The simultaneous obtainment of the certificates accrediting the Criminal Compliance Management System, in accordance with the UNE 19601:2017 standard and an anti-bribery management system in conformity with the UNE-ISO 37001 standard.

Of the activities performed in the year, it was concluded that ENDESA's Criminal Risk Prevention Model is operative at all significant Group companies, and that it is being effectively executed and is generally suitable to reduce the risks of committing offences defined in the applicable regulations.

3. Cases of corruption complaints and corrective measures taken.

In 2017, ENDESA received a total of 10 complaints, either through its Ethical Channel or through other means. The investigation of nine of them was completed in the same year. Of the complaints received, one case of non-compliance with the Code of Ethics was verified, relating to Company fraud and conflicts of interest. In that case, corrective measures were applied. None of the complaints received related to cases of discrimination.

Three complaints were resolved in 2017 related with cases of corruption, as opposed to two resolved in the preceding year. Only in one of these cases was it verified that the Code of Ethics had been breached by an employee and the corresponding corrective measures were taken.

	Complaints Related with Corruption		
	2015	2016	2017
Conflicts of Interest / Corruption	0	1	2
Fraud or Robbery of the Company / Undue Use of Resources	2	1	1
Total	2	2	3

ENVIRONMENTAL SUSTAINABILITY

1. Business Model.

Impacts, risks and opportunities of Greenhouse Gas (GHG) emissions, scope 1, of the reduction of Greenhouse Gas (GHG) emissions, of the impact of Greenhouse Gas (GHG) emissions arising from transportation and from the consequences of climate change).

For ENDESA, the fight against climate change is one of the greatest challenges that must currently be faced by companies, and the electric utility is aware that the energy sector is one of the most affected industries.

ENDESA occupies a leading position in the fight against global warming by the European Union. In this context, the challenge of the decarbonisation of the energy mix is examined, together with the opportunities arising from such challenge.

ENDESA's Strategic Plan aims to consolidate its leadership position on the markets in which it operates, taking into account the impact of climate change on the energy business model and the transition to a new energy eco-system, reducing the risks represented by its business, and maximising the opportunities that will be offered by this transition and this new eco-system.

ENDESA has an ambitious plan to reduce emissions for the decarbonisation of its energy mix in 2050, in line with the targets set at Spanish and European level with the 2050 Road Map and the 2030 Energy and Climate Package.

ENDESA's strategy is to invest in low-coal generation technologies and to increase the value of coal-free energy production. Increased public incentives to invest in smart grids and renewable energies represent an opportunity for ENDESA. Accordingly, in 2016, ENDESA acquired 60% of the share capital of ENEL Green Power España, S.L.U. (EGPE), a company in which it previously held a 40% holding, in order to comply with the 2050 decarbonisation objective. This investment is the result of the commitment acquired by the Company in the search for new opportunities and technologies that generate value and with respect to which it will continue to work in the future.

In order to consolidate its commitment to the decarbonisation road map, ENDESA awarded 879 MW of wind and solar power in the 2017 auctions, through ENEL Green Power España, S.L.U. (EGPE), in which it expects to invest 870 million euros until 2020.

It is important to highlight that the decarbonisation drive at European level has, to date, focused especially on the energy sector, giving increasing significance to the policies tied to the transport sector, responsible for almost 25% of total emissions in the European Union, with road transport being the highest emitter, with more than 70% of total transport GHG emissions in 2014.

Recently, a provisional agreement was approved on the regulations to distribute the drive to guarantee new emission reductions in sectors outside the scope of the European Union's emission rights trading system for 2021-2030. The European Union's reduction target for non-ETS sectors is 30% for 2021-2030 and, in order to guarantee a fair distribution of efforts to reduce diffuse emissions, the new regulation establishes binding national targets to ensure compliance with the European objective. Spain must reduce its CO₂ emissions associated with the non-ETS sector by 26% with respect to its 2005 levels, by 2030, under the agreement reached, which maintains the distribution initially proposed by the European Commission, as confirmed by the institution and European sources.

Transport emissions in Spain have increased by almost 50% since 1990. The transport sector is one of the main carbon dioxide emission sources (CO₂) of the Spanish economy, representing

around 27% of global emissions, according to the Provisional Results of the Greenhouse Gas Inventory (GHG), published in 2016 by the Ministry of Agriculture and Fishing, Food and the Environment (MAPAMA). Therefore, one of the basic objectives of the future Climate Change and Energy Transition Act will be to promote a policy for sustainable transport and mobility.

For all the aforementioned reasons, the fundamental challenge of developed societies regarding mobility is to evolve towards low coal consumption economic models and to reduce pollution, primarily in cities. ENDESA aspires to lead the response to this challenge by promoting electrification of the energy demand and efficient consumption, by developing plans and programmes intended to enhance electrical mobility, smart grids and energy efficiency.

2. Material Aspects and Objectives.

2.1. List of Material Aspects.

In 2017, ENDESA identified the decarbonisation of the energy mix and the minimisation of environmental impacts as the most significant environmental aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Climate change is currently the primary environmental issue for companies in the energy industry. In Spain, electricity generation causes 18% of greenhouse gas (GHG) emissions. Accordingly, ENDESA, aware of its role in this regard and of its capacity to contribute to achieving a low-carbon economy, makes one of its priorities the gradual reduction of greenhouse gas (GHG) emissions associated with the generation of electrical energy, by increasing its presence in renewable energy and optimising the management of traditional technologies. The aim is to achieve this, notwithstanding its public commitment to decarbonise the energy mix by 2050, which will be attained by following the road map established in its 2018-2020 Strategic Plan.

Protecting the environment and minimising environmental impact have become one of the primary factors that shape the status of opinion involving companies in the industry. Moreover, regulations have become notably stricter, which has increased the level of requirements for companies to minimise their environmental footprint. Thus, always committed to environmental management excellence, ENDESA continues to assume among its environmental priorities aspects such as the improvement of air quality, the efficient use of energy and the promotion of a responsible consumption of water resources.

2.2. How the Organisation Manages Material Aspects - The Results of our Environmental Goals. ENDESA's 2017-2019 Sustainability Plan (PES).

ENDESA includes the material aspects detected in its sustainability plans, and establishes quantitative objectives aimed at promoting excellence in their management, thereby enabling the level of commitment and performance to be assessed.

In this regard, below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2017-2019 Sustainability Plan, associated with the environmental priorities described, as well as the new objectives established in the framework of ENDESA's new 2018-2020 Sustainability Plan.

The complete details of all the environmental objectives included in the Sustainability Plans can be found in the 2017 Sustainability Report, at www.endesa.com.

Compliance with the environmental objectives of ENDESA's 2017-2019 Sustainability Plan (PES).

Area	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Decarbonisation of the Energy Mix	Reduction of absolute CO ₂ emissions vs 2005	34%	32%	94%
	Specific CO ₂ emissions (kg/kWh)	44%	44%	99%
	Production free from CO ₂ (%)	0,5	0,44	88%
Reduction of Environmental Impacts	Reduction of specific SO ₂ emissions (g/kWh)	0.91	0.77	100%
	Reduction of specific NO _x emissions (g/kWh)	1.15	1.09	100%
	Reduction of specific particle emissions (g/kWh)	<0,035	0,023	100%
	Specific consumption of water in generation (m ³ /MWh)	< 930	840	100%

New environmental objectives of ENDESA's 2018-2020 Sustainability Plan (PES).

Area	Description of the Objective	2018 Objective	2020 Objective
Decarbonisation of the Energy Mix	Specific CO ₂ emissions (kg/kWh)	436	349
	Production free from CO ₂ (%)	48%	55%
Reduction of Environmental Impacts	Reduction of specific SO ₂ emissions (g/kWh)	0.76	0.41
	Reduction of specific NO _x emissions (g/kWh)	1.09	0.93
	Reduction of specific particle emissions (g/kWh)	0,028	0,022
	Specific consumption of water in generation (m ³ /MWh)	882	696

3. Environmental Policy.

ENDESA's environmental policy - Basic procedural principles.

ENDESA approved and published its first environmental policy in 1998. Since then, it has evolved to adapt to the current environmental concerns.

ENDESA considers environmental excellence to be a fundamental value in its business culture. Accordingly, it performs its activities by respecting the environment, in line with sustainable development principles, and is firmly committed to the conservation and sustainable use of its resources. Its policy is based on nine basic procedural principles, as detailed below:

- Integration of environmental management and the concept of sustainable development into corporate strategy, using environmental criteria documented in the planning and decision-making processes, and in the analyses of new business opportunities, mergers or new acquisitions.
- Permanent monitoring, at all locations, of compliance with the legislation in force and with the voluntary agreements acquired, and regular reviews of its plants' environmental performance and safety, reporting on the results obtained.
- Establishment of adequate management systems, based on continual improvement and aimed at preventing pollution.
- Sustainable use of energy and water resources and raw materials, and the measurement and reduction of the environmental impact by applying the best techniques and practices available.
- Protection, preservation and enhancement of biodiversity, ecosystems and its services during operations associated with its business; reducing negative impacts to a minimum and compensating for residual impact, focused on the goal of No Net Loss of Biodiversity.
- Contribution to the fight against climate change through gradual decarbonisation of the energy mix, fostering the development of renewable energies, energy efficiency and the application of new technologies.

- Awareness raising of and sensitivity to environmental protection issues, through internal and external training programmes and collaboration with public-sector authorities, institutions and citizens' associations in all areas in which it is active.
- Establishment of a constructive dialogue with public authorities, official bodies, shareholders, customers, local communities and other stakeholders.
- Encouragement to contractors and suppliers to implement environmental policies based on these same principles.

4. Key Performance Indicators.

The following sections show the performance of the most representative environmental indicators affecting ENDESA's business. Performance during 2017 has not been good due to the climate conditions throughout the year. 2017 was the warmest and the second driest since 1965; rainfalls between 1 October and 26 December were 44% lower than average. This led to greater use of thermal power plants and the subsequent negative impact on environmental indicators. This has prevented the investments made by ENDESA, focused on reducing the environmental impact of its activity, from improving the indicators for 2017.

4.2.1. Consumption.

Fuel consumption.

The main materials used to produce electricity are fuels and these are considered to be non-renewable. Higher consumption of all fuels has resulted from increased operation of the thermal power plants.

Consumption of Materials (Weight / Volume)				
Fuel Type	2015	2016	2017	Units
Coal	12,390	10,304	12,245	kt
Fuel Oil	1,279	1,427	1,448	kt
Diesel	824	758	788	kt
Natural Gas	1,1	989	1,797	10 ⁶ m ³

Internal energy consumption.

Energy consumption by the Organisation refers to the fuel consumed to generate electricity. Electricity consumed by the Company has not been included because the facilities are supplied by electricity produced by the Organisation.

Higher energy consumption is the result of increased operation of the thermal power plants during 2017.

Internal Energy Consumption per Primary Source (TJ ⁽¹⁾)				
Fuel Type	2015	2016	2017	
Coal	254,794	213,197	244,764	
Fuel oil	51,478	57,379	58,205	
Diesel	34,678	32,065	33,357	
Natural gas	42,019	38,237	67,676	
Total ENDESA Consumption	382,968	340,877	404,002	

(1) TJ: Terajoules.

External energy consumption.

In 2017, external energy consumption was estimated at 66.42 TJ, considering the fuel cost of supplier vehicles that normally work with ENDESA. The calculation is performed on the basis of the carbon footprint tool, which is verified by AENOR in accordance with the UNE EN ISO 14064

standard. The data may be modified since, at the publication date of this Statement, the external verification process is being performed in accordance with the requirements of the UNE EN ISO 14,064 standard.

Energy intensity.

The energy intensity in the foregoing table was calculated considering the internal energy consumption. The value of energy intensity is affected by its proportion in the different generation technologies and the functioning of each of them in the year.

Year	Total Energy Consumption (TJ ⁽¹⁾)	Net Production (MWh)	Energy Intensity (TJ/MWh)
2015	382,968	72,715	5.27
2016	340,877	69,566	4.90
2017	404,003	78,222	5.16

(1) TJ: Terajoules.

Reduction of energy consumption - Energy saving.

In 2017, ENDESA saved 415 GJ of energy as a result of the implementation of energy efficiency improvement programmes, including the programmes focused on the redesign of processes or on the conservation and adaption of equipment, together with changes in the conduct of its employees during the performance of its functions. This energy saving represents a reduction of the Company's carbon footprint and contributes to the reduction of the business's operating costs. In 2017, various efficiency measures were implemented at buildings, but no decrease was observed in energy consumption, mainly due to increased consumption from air conditioning.

Energy Saving Due to Conservation and Improvements in Efficiency (GJ ⁽¹⁾)			
Fuel Type	2015	2016	2017
Redesign of Processes	16,500.61	5,389.22	-
Conservation and Adaptations of Equipment	6,503.94	10,322.88	415.78
Changes in Conduct of Employees	70.41	1,256.81	-
Total	23,074.96	16,698.98	415.78

(1) GJ: Gigajoules.

4.2.2. Water.

Volume of process water by source.

The consumption of process water increased with respect to 2016 due to a higher operation of thermal and nuclear generation technologies. In any case, total consumption remains below the expected target.

Consumption of Process Water (Hm ³)			
	2015	2016	2017
Thermal Production Unit (TPU)	51.04	44.02	50.43
Nuclear Generation	16.45	16.69	15.60
Mining	0.935	0.29	0.02
TOTAL	68.42	60.99	66.06

Total water catchment by source.

The detail of water by source increased with respect to 2016 due to a higher operation of thermal and nuclear generation technologies. In any case, total consumption remains below the expected target.

		Total Water Catchment by Source (Hm³)		
		2015	2016	2017
Industrial Use	Catchment of Freshwater	65.55	58.59	63.24
	of Surface Water	60.21	57.42	62.29
	of Wells	0.87	0.29	0
	of Municipal Network	0.64	0.87	0.95
	Catchment of Seawater			
	Catchment of Seawater (Desalting)	2.87	2.51	2.80
	Catchment of Wastewater (Internal Use)	0,006	0,016	0,015
Use for Cooling	Marine Water (Open Cycle)	4,248.88	3,083.31	3,265.27
	Surface Water (Open Cycle)	1,647.28	1,607.97	1,502.80
	Water (Closed Cycle)			
	Volume of Process Water	286.65	242.93	285.29
	Draining of Cooling Towers	252.23	221.99	246.27
Civil Use		0.19	0.18	0.20
TOTAL (1)		6,217.01	4,978.14	5,080.59

(1) The total does not include the volume of processed water used for refrigeration in closed cycle.

Water sources affected by catchment.

Water Sources Significantly Affected by Water Catchment (no.)		
Significantly Affected Water Masses		
Due to catchment ≥5% total annual average vol. of the water mass	2015	124
	2016	124
	2017	124
Due to catchment in water masses considered to be significant	2015	9
	2016	9
	2017	9
Due to catchment at Ramsar wetlands or in protected areas	2015	8
	2016	8
	2017	8
Due to catchment at sources located in areas of national protection	2015	76
	2016	76
	2017	76
Due to catchment at sources located in areas of international protection	2015	73
	2016	73
	2017	73
Total significantly affected water masses	2015	290
	2016	290
	2017	290
Characteristics of Significantly Affected Water Masses		
Volume (m³)	2015	395,324,000
	2016	395,324,000
	2017	395,324,000
Flow (m³/sec)	2015	2,525.70
	2016	2,525.70
	2017	2,525.70
Classified as protected	2015	76
	2016	76
	2017	76
With Value due to its biodiversity 1=YES; 0=NO	2015	76
	2016	76
	2017	76

Recycled and reused water.

The reported recycled water corresponds to wastewater that is reused, either in the same process or in another different one, but always within the same facility.

Year	Recycled Water (Hm³)
2015	0,006
2016	0,016
2017	0,015

4.2.3. Greenhouse gas (GHG) emissions.

Increased CO₂ emissions are due to the increased operation in 2017 of thermal plants due to low rainfall.

CO₂ emissions in the electricity generation process.

CO ₂ Emissions Thermal Generation Facilities			
Year	Absolute (tonnes)	Specific (kg/kWh)	
2015	33,548,165		0,461
2016	29,089,037		0,418
2017	34,517,220		0,439

2017 emission data was extracted from the latest Annual Notification Report of each of ENDESA's thermal plants, in line with the version available at the date of preparation of this Statement of Non-financial Information. This data may be subject to minor adjustments as a result of the verification process underway at AENOR, prior to their presentation to the competent public authorities prior to 28 February.

Scopes 1, 2 and 3 of greenhouse gas (GHG) emissions.

Scope 1 of the carbon footprint includes the direct greenhouse gas emissions, that is, those arising from sources controlled by the Company. Specifically, they include emissions arising from electricity generation at the thermal generation plants, use of SF₆, methane leaks generated at the hydraulic plant reservoirs, air conditioning of offices and own fleet.

The 2017 values of scopes 2 and 3 of the carbon footprint are explained, on the one hand, by the functioning of the different production technologies, extensively acknowledged in the previous points and, on the other hand, because in 2017, a thorough methodological review was performed. Of note with regard to such review was its incorporation within the scope of the natural gas supply activity, to be able to guarantee the full inclusion within the carbon footprint of all activities carried on by the Company.

Scopes 2 and 3 of the 2017 emission data may be modified since, at the publication date of this Statement the external verification process is being performed in accordance with the requirements of the UNE EN ISO 14,064 standard.

Scope 1, 2 and 3 CO ₂ Emissions			
Year	CO ₂ (t) Scope 1	CO ₂ (t) Scope 2	CO ₂ (t) Scope 3
2015	33,919,981	951,184	18,589,803
2016	29,354,060	930,19	17,32498
2017	34,768,897	544,837	28,719,038

4.2.4. Air quality.

Polluting atmospheric emissions.

Despite the increased operation of thermal plants, specific emissions dropped as a result of the efficiency and environmental protection measures implemented at the facilities.

Evolution of ENDESA'S Absolute SO ₂ , NO _x and Particle Emissions			
	2015	2016	2017
SO ₂ (tonnes)	89,246	61,388	60,287
NO _x (tonnes)	93,274	83,011	83,842
Particles (tonnes)	2,179	1,556	1,844

Evolution of ENDESA'S Absolute SO ₂ , NO _x and Particle Emissions			
	2015	2016	2017
SO ₂ (gSO ₂ /kWh)	1.23	0.88	0.77
NO _x (gNO _x /kWh)	1.28	1.19	1.07
Particles (g Particles/kWh)	0.03	0.02	0.02

HUMAN RESOURCES

1. Material Aspects and Objectives.

1.1. Explanation of each Material Aspect Relating to Human Capital, and its Coverage.

In 2017, ENDESA identified the development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Promotion of human capital: For ENDESA, its employees constitute the main company asset to create value in a sustainable manner. Likewise, in a climate of change towards a new energy model, having human capital with the best abilities, which is as diverse as possible and shows a strong commitment to the business project, is fundamental to lead such change. Accordingly, ENDESA's employment priorities include management of diversity (especially gender and age), the reinforcement of internal culture, the availability of adequate work conditions, employment flexibility and meritocracy.

1.2. Explanation of how the Organisation Manages each Material Aspect. PES Results (2016-2019).

ENDESA includes these priorities in its sustainability plans and sets quantitative goals focused on promoting excellence in human capital management, in order to assess the level of commitment and performance achieved.

Described below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2017-2019 Sustainability Plan (PES), associated with the employment priorities described above, as well as the new objectives established in the framework of ENDESA's new 2018-2020 Sustainability Plan (PES).

The complete details of all the work environment objectives included in the Sustainability Plans can be found in the 2017 Sustainability Report, at www.endesa.com.

Fulfilment of the main human capital promotion objectives in ENDESA's 2017-2019 Sustainability Plan (PES).

Area 2017-2019 PES	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Promotion of Human Capital	Participation in the performance assessment processes (% employees)	99%	99%	100%
	Global inclusions of women	33%	34.54%	100%
	Women in management positions	16.5%	16.4%	99%
	Promotion of training to employees (hours/employee/year)	46	35.3	78%
	Promotion of on-line training to employees (hours/employee/year)	13	10	78

New human capital promotion objectives for ENDESA's 2018-2020 Sustainability Plan (PES).

Area 2018-2020 PES	Description of the Objective	2018 Objective	2020 Objective
Promotion of Human Capital	Participation in the performance assessment processes (% employees)	99%	99%
	Global inclusions of women	38%	0,39
	Women in management positions	17.5%	18.5%
	Promotion of training to employees (hours/employee/year)	36	39
	Development of digital capacity (% employees)	-	100%

2. Human Capital Policies.

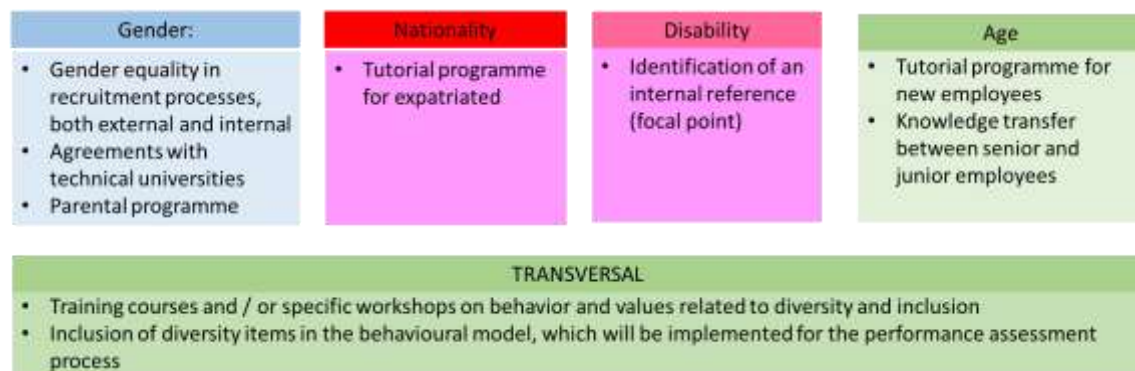
ENDESA constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. In this regard, its Leadership Model and the Development of Talent, together with the *performance appraisal* processes and the development of people with potential guarantee development based on merit and on the contribution itself. Likewise, considering that the digital transformation means that the Company must adapt its value proposal to the new digital customer and adopt new technologies in its value chain, one of the leading challenges for the Company is the development of this digital culture. In this regard, ENDESA is working to promote the change of the organisational culture and the way of doing of the Company.

In the training area, ENDESA establishes an annual plan to ensure the proper development of people within its Organisation, and to encourage the professional development of its staff.

Likewise, ENDESA rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA will do everything possible to encourage and maintain a climate of respect for the dignity, honour and individuality of people, and will ensure the highest standards of confidentiality with respect to any information related to employee privacy, of which it is aware. Also in compliance with the values and principles included in ENEL's Code of Ethics, and as a part thereof, ENDESA adopts the following main principles:

1. Non-discrimination.
2. Equal opportunities and dignity for all forms of diversity.
3. Inclusion.
4. Reconciliation of personal, family and professional life.

On the basis of these principles, ENDESA is committed to implement specific measures to promote non-discrimination and inclusion in the following areas of diversity, by establishing the following plan of action:



In the same line, ENDESA promotes gender equality in all areas of the Company, especially regarding positions of responsibility and employee recruitment.

ENDESA guarantees the right to freedom of association for its employees and for all its contractors and suppliers.

3. Key Performance Indicators.

3.1. Newly Hired Employees / Workforce Rotation.

Newly hired employees are an indicator reflecting ENDESA's role as a creator of employment. These figures are important, as they measure Company renewal and adaptation to new trends.

New Recruitments	
2015	291
2016	556
2017	256

ENDESA wishes to be an excellent company to work for, directly leading to a low staff turnover. The employee turnover rate in Spain in 2017 was 7.3, within the values expected by the Company.

3.2. Prior Notice Period for Operational Changes.

Existing Spanish employment legislation and ENDESA's employment regulations in Spain establish the criteria that should be adhered to in the event of business reorganisation and corporate restructuring. It is also established that corporate restructuring operations shall be made known to employee representatives at least 30 days before they come into effect.

3.3. Average Number of Training Hours per Year per Employee.

Having a trained workforce, constantly adapted to the new requirements for which the sector must be prepared, is ENDESA's strategic pledge to maintain its leadership. Accordingly, the average number of training hours per employee is a piece of data that backs up such strategy.

Average Hours of Individual Employee Training per Year, Broken Down by Gender and Professional Category	
Executives Training	
2015	56.6
Men	54
Women	71.7
2016	29.9
Men	28.8
Women	35.4
2017	36.9
Men	36.2
Women	40.7
Middle Management Training	
2015	58.3
Men	57.5
Women	60
2016	52.9
Men	52.8
Women	53.2
2017	43.8
Men	43.3
Women	44.9
Administration and Management Personnel Training	
2015	27.9
Men	28.2
Women	26.9
2016	42.3
Men	44.7
Women	36.4
2017	31
Men	32.8
Women	26.6
Manual Worker Training	
2015	40.8
Men	41
Women	36.2
2016	45.4
Men	45.7
Women	36.1
2017	31.2
Men	31.4
Women	22.3

3.4. Employee Diversity.

ENDESA always pledges for diversity among its employees, mindful that it enriches the Company, constituting an important asset. The following figures show a progressive increase of women in the workforce, which increases their proportion with respect to total employees by one percentage point a year in the last three years, which is highly significant and mirrors the Company's firm commitment to gender diversity, taking into account the size of the workforce, its historical composition and a very high percentage of indefinite-term contracts and stable employment relationships. With regard to age, they reflect a solid safe company in terms of senior staff which, at the same time, is gradually being renewed.

Breakdown of the Headcount by Gender			
	Year	Number	%
Women	2015	2,147	21.5
	2016	2,168	22.4
	2017	2,248	23.2
Men	2015	7,853	78.5
	2016	7,526	77.6
	2017	7,458	76.8
Total Staff	2015	10,000	
	2016	9,693	
	2017	9,706	

Breakdown of the Headcount by Age		
Under 28 years old	2015	150
	2016	153
	2017	168
28-34 years old	2015	1,019
	2016	990
	2017	904
35-44 years old	2015	3,13
	2016	3,188
	2017	3,233
45-54 years old	2015	3,431
	2016	3,214
	2017	3,274
55-59 years old	2015	2,164
	2016	1,82
	2017	1,683
Above than 60 years old	2015	102
	2016	331
	2017	444

3.5. Cases of Discrimination and Corrective Measures Taken.

In 2017, there were no cases of discrimination at ENDESA, a fact which the Company periodically reports to its employee representatives.

4. Measures Adopted to Guarantee Equality.

4.1. Explanation of the Concepts of Diversity and Non-Discrimination.

The Diversity and Inclusion programmes are encompassed with the Human Rights policy approved by ENDESA, S.A on 24 June 2013, which includes respect for diversity and non-discrimination among its principles, with ENDESA rejecting all manner of discrimination and maintaining its commitment to ensure that all employees, both current and potential, are treated with respect regarding their diversity, thereby promoting equal opportunities, be it on entering into an employee relationship or at any stage of their development.

The general principles of the Diversity and Inclusion programmes are as follows:

Non-discrimination

All employees are treated solely on the basis of their professional skills and abilities in all decisions affecting their employment relationship.

Accordingly, all manner of political, religious, national, ethical, racial, linguistic, gender or age discrimination is forbidden, together with any form of discrimination against personal characteristics such as personal beliefs, sexual orientation, trade union membership and activity, and any other form of social discrimination.

Under such principles, no type of harassment or intimidation will be acceptable.

Equal opportunities and dignity for all forms of diversity

Diversity is a value that should be sought after and enhanced and equal treatment and opportunities shall be guaranteed for all types of diversity.

Moreover, personal circumstances associated with reconciliation of personal, family and professional life shall not be construed as a reason for less favourable treatment.

Inclusion

ENDESA is committed to establishing measures, practices, processes and services, with no restrictions of access to any of the parties involved, whether employees, customers or contractors.

All these persons shall have the opportunity to participate in the Company's processes and there shall be no explicit or implicit barriers for any unit, function, country, gender, religion, culture, belief, orientation, disability, age or any other manifestation of diversity.

Reconciliation of personal, family and professional life

ENDESA promotes work-life solutions that support the actual daily needs of employees, in order to foster respect for all manner of situations facing people during their working life.

4.2. Explanation of how the Organisation Manages Diversity and Non-Discrimination.

ENDESA defines its action plan for diversity and inclusion as follows:

Gender; in order to acknowledge, respect and manage the differences between men and women, guaranteeing the development of talent and ensuring equal opportunities and treatment, the following measures are implemented:

- In the internal and external selection processes, Human Resources guarantees that, in the initial phase of the process, both genders will be equally represented in the total population assessed. When this is not possible, the reason is specified and registered.
- The Human Resources Department establishes specific relationships with universities, aimed at identifying programmes and employees that promote the participation and inclusion of female students, especially at technical schools or faculties.
- At ENDESA, parental programmes have been implemented, aimed at balancing the needs that people have as parents and their professional growth aspirations. They consist of a series of structured interviews between employees, their managers and Human Resources Business Partners (hereinafter, HRBP, who are human resources professionals that work closely with the business line to identify its needs and cover them), optimising the professional development, well-being and satisfaction of employees) before and after maternity, to increase their value, both for the employee and for the Company. Furthermore, a tutor is assigned, on a voluntary basis, to employees that expect to request maternity leave.

Age; in order to acknowledge, respect and manage the differences between generations, guaranteeing the integration, motivation and transfer of knowledge, the following measures have been implemented:

- A tutorial programme has been implemented to support employees in their main transition periods (for example, during their recruitment). Such tutorial may be voluntarily requested, for a variable duration, based on the needs of each specific situation.

- The development of professional families is guaranteed by using senior expert employees that have worked as internal trainers as far as possible.

Nationality: in order to acknowledge, respect and manage the differences between people of different nationalities, and to foster their integration, all expatriates are assigned a tutor from the destination country that helps them and supports them during their expatriation period.

Disability: in order to acknowledge, respect and manage the different disabilities of people within ENDESA, taking advantage of each person's potential, a reference person has been identified with respect to the disability. These persons provide support for the Human Resources Business Partners (HRBP), the corresponding Health and Safety units and managers and employees to deal with any matters concerning the disability in question and specifically for individuals with disabilities that impede the fulfilment of their needs and ambitions.

Transversal dimension: specific training workshops and/or courses on Diversity and Inclusion behaviour and values have been set up, especially for the professional family at Human Resources, newly hired employees and new managers.

Application of the Diversity and Inclusion policy.

ENDESA has drawn up a gender plan of action that includes the following lines of work:

- Increasing the percentage of women in the recruitment processes: fostering gender equality in recruitment processes, both external and internal, in the *shortlist* stage, that is, when deciding on the *group* of candidates who are eligible for interviews to select the final candidates.
- *STEM*: promoting agreements with universities and institutions to encourage the participation of female students in *STEM* studies (science, technology, engineering and mathematics).
- *Parental programme*: implementation of a programme aimed at balancing the needs that employees have as mothers and fathers and their professional growth aspirations.

5. Measures taken to Apply the International Employment Conventions at the Company (ILO; OECD).

ENDESA promotes respect for human rights, taking as a base, all agreements established by the International Labour Organisation (ILO), in all its commercial relations, the compliance of its contractors, providers and trade partners with the same principles, focusing particularly on conflictive and high-risk situations, the rejection of forced or mandatory labour and child labour, respect for diversity and non-discrimination, freedom of association and collective bargaining, occupational health and safety and fair and favourable working conditions.

See further information in section Evaluation of impacts of ENDESA's business activity, Labour Relations scope of application.

5.1. Employee Training on Human Rights Policies and Procedures.

Until now ENDESA has not provided any specific comprehensive human rights training, although certain human rights matters have been directly and indirectly addressed in other courses given in 2017. Likewise, in 2018, the Company will provide a special course on human rights aimed at all its employees.

Main Contractors and Suppliers Assessed on Human Rights		
Significant suppliers and contractors assessed on human rights	2015	102
	2016	234
	2017	193
% of Significant suppliers and contractors assessed on human right	2015	51%
	2016	100%

Human Rights Training			
Employees' training on policies and procedures related to human rights relevant to their activities	(hours)	2015	48
		2016	200
		2017	1,200
Employees trained on human rights	(n.)	2015	6
		2016	1
		2017	6
Total number of employees	(n.)	2015	10,000
		2016	9,694
		2017	9,706
Employees trained on human rights	(%)	2015	0.00%
		2016	0.00%
		2017	0.06%

6. Company Management of the Right of Workers to be Informed and Consulted.

ENDESA maintains on-going dialogue with employee representatives, through which it endeavours to maintain collaboration that benefits both the Company and its employees, thereby respecting the rights to information and consultation of such representatives and negotiating employee conditions, if required.

As indicated in point 3.2., ENDESA complies with the existing regulations and notifies employee representatives of the organisational and corporate changes at least 30 days in advance.

Furthermore, the Company frequently performs a climate survey, whereby it identifies improvement areas on which to work to correct anything required.

Moreover, the CEO holds breakfasts with employees, at which they can directly raise their concerns and make suggestions. Since this meeting initiative was launched with the CEO, held every two months, over 140 people have taken part and the CEO met with 60 employees in 2017.

6.1. Inclusion Principle. How the Organisation has responded to the Reasonable Interests and Expectations of Employees.

ENDESA takes the steps required to respond to the improvement areas identified through the climate survey.

The Company maintains on-going dialogue with employee representatives, through which it attempts to establish collaboration that will benefit both the Company and its employees.

Likewise, different bodies exist at the Company to affront the negotiation processes required to adapt to Company needs.

Also, pursuant to prevailing regulations, the Company complies with the rights to information and consultation of such representatives, providing the information and enquiries needed for the employee representatives to carry on their trade union activities.

Lastly, it must be highlighted that in 2017 ENDESA carried out various internal communication campaigns, such as work-life balance programmes, in order to promote the measures available for employees; another campaign on diversity, which includes the four main dimensions (gender, age, nationality and disability), and the launch of a survey to ascertain employee perception of internal notices.

OCCUPATIONAL HEALTH AND SAFETY (OHS)

1. Material Aspects and Objectives.

1.1. Explanation of each Material Aspect Relating to Personnel, and its Coverage.

In 2017, ENDESA identified occupational health and safety, together with development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Occupational health and safety: The optimal management of occupational health and safety has a direct effect on the economic performance of companies, since it increases productivity and reduces associated employment costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA and the work that they perform. Consequently, this aspect is the fundamental pillar of sustainability at ENDESA, contributing to the Company's operating excellence.

1.2. Explanation of how the Organisation Manages each Material Aspect. Results of the ENDESA's 2017-2019 Sustainability Plan (PES).

ENDESA includes these priorities in its sustainability plans and sets quantitative goals focused on improving occupational health and safety, in order to assess the level of commitment and performance achieved.

Described below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2017-2019 Sustainability Plan (PES), associated with the occupational health and safety priorities described above, as well as the new objectives established in the framework of ENDESA's new 2018-2020 Sustainability Plan (PES).

The complete details of all the occupational health and safety objectives included in the Sustainability Plans can be found in the 2017 Sustainability Report, at www.endesa.com.

Fulfilment of the main occupational health and safety objectives in ENDESA's 2017-2019 Sustainability Plan (PES).

Area	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Occupational Health and Safety	Fatal Accidents	0	1	0%
	Combined Accident Frequency Rate	1.19	0.75	100%

New occupational health and safety objectives for ENDESA's 2018-2020 Sustainability Plan (PES).

Area	Description of the Objective	2018 Objective	2020 Objective
Occupational Health and Safety	Fatal Accidents	0	0
	Combined Accident Frequency Rate	1.04 (-80% vs 2010)	0.88 (-83% vs 2010)

2. Policy Implemented by the Company in the Area of the Occupational Health and Safety of its Employees.

ENDESA considers Occupational Health and Safety (OHS) a priority and a fundamental value to preserve at all times for all who work for the Company, without distinction between own staff and its partner companies.

The integration of this goal in ENDESA's strategy materialised through the implementation of Occupational Health and Safety (OHS) policies at all the companies comprising the Group, the implementation of specific employment plans and the implementation of a single global system for observing work conduct.

ENDESA also carries out various annual initiatives in its long-term strategy of continuous improvement of Occupational Health and Safety (OHS). The activities performed in 2017 were as follows:

- Once the phase of issuing reports corresponding to the Assessment of Psychosocial Risks has been concluded, in which the factors corresponding to all ENDESA companies have been analysed, those preventive measures considered to positively lead to a reduction of the burden of psycho-social factors in occupations have been included in the preventive planning of all businesses. Likewise, a method has been designed to assess the effectiveness of the implementation of such measures at the Organisation.
- In line with the outcome of the 2016 Occupational Health and Safety (OHS) Climate survey, and following the identification of the different improvement aspects, in 2017, a series of measures were taken of a diverse nature to foster knowledge, preventive culture and commitment in occupational risk prevention.
- Monographic sessions were held at ENDESA's Staff Departments, and occupational and office risk awareness-raising campaigns were conducted.

3. Key Performance Indicators.

3.1. Types of Accidents and Frequency Rates, Occupational Diseases, Days Missed, Absenteeism and Number of Deaths due to Occupational Accidents or Diseases.

One of the material aspects identified by ENDESA was Occupational Health and Safety (OHS). The optimal management of occupational health and safety has a direct effect on the economic performance of ENDESA, and on the attainment of its strategic objectives. The occupational health and safety (OHS) commitment of employees and contractors increases productivity and reduces absenteeism and associated indemnity costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA.

Accordingly, the following indicators are of the utmost importance for the Company, so they are monitored monthly, reflecting the Company's management in this regard.

	No. of Occupational Accidents ⁽¹⁾			Frequency Index ⁽²⁾			Seiousness Index ⁽³⁾		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Spain	65	50.27	37.42	1.28	1.01	0.75	0.08	0.08	0.09
In House	12	4.85	4.85	0.71	0.3	0.30	0.04	0.02	0.01
Contractors	53	45.42	32.56	1.56	1.36	0.97	0.11	0.1	0.14

(1) Includes fatal accidents.

(2) Total number of accidents, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000,000.

(3) Total number of days missed due to accident, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000.

ENDESA'S Absence Rate of ENDESA Employees ⁽¹⁾ (T.A. ⁽²⁾) ⁽³⁾			
	2015	2016	2017
Spain	2.59	2.59	2.60

(1) The days missed due to absence do not include holidays, public holidays, or authorised absence for family motives (maternity and paternity leave etc.), or training leave.

(2) Total number of working days missed through absence in the year with respect to the total number of days worked by group in this same period, multiplied by 200,000 (this factor corresponds to 50 working weeks of 40 hours for each 100 employees).

(3) This Absenteeism rate does not include proportionately consolidated jointly controlled entities.

	Days Missed due to Absence per Year		
	2015	2016	2017
Spain	61,482	79,936	56,494

Main Contractors and Suppliers Assessed on Human Rights		
Significant suppliers and contractors assessed on human rights	2015	102
	2016	234
	2017	193
% of Significant suppliers and contractors assessed on human right	2015	51%
	2016	100%

Main Contractors and Suppliers Assessed on Human Rights		
Significant suppliers and contractors assessed on human rights	2015	102
	2016	234
	2017	193
% of Significant suppliers and contractors assessed on human right	2015	51%
	2016	100%

RESPONSIBLE RELATIONSHIP WITH THE COMMUNITIES

1. Material Aspects and Objectives.

1.1. Explanation of Each Material Aspect and its Coverage. Social Material Aspects.

The Company has currently been strengthened, mainly due to the development of communication technologies that have increased connectivity between people and facilitated access to information. That has contributed to increase the willingness of local communities to actively participate in those matters that may affect them positively or negatively to a greater or lesser extent.

Moreover, social opposition to certain projects carried out by investees could generate costs associated with the delay in project execution or even lead to the actual freezing of such projects and, in any case, to a loss of confidence and social legitimacy vis-à-vis the Company.

Accordingly, in order to guarantee the sustainability of its business projects, ENDESA must integrate the expectations of its stakeholders at local level from the beginning, fostering the development of dialogue and responsible relations with the local communities, applying a Shared Value Creation Approach at all times, through which to generate value for the Company and society.

In this regard, enquiries conducted by ENDESA in 2017 with its most significant stakeholders revealed the following primary aspects associated with management of the local communities: facilitate access to electricity of vulnerable groups, the mitigation of the impact of operations on the local communities and socio-economic development.

1.2. Explanation of how the Organisation Manages Each Material Aspect. Results of the ENDESA's 2017-2019 Sustainability Plan (PES).

Through its Sustainability Plan and the implementation of its Shared Value Creation Approach, ENDESA meets these expectations and establishes objectives and measures to fulfil this purpose.

Described below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2017-2019 Sustainability Plan (PES), associated with the social priorities described above, as well as the new objectives established in the framework of ENDESA's new 2018-2020 Sustainability Plan (PES).

The complete details of all the social objectives included in the Sustainability Plans can be found in the 2017 Sustainability Report, at www.endesa.com.

Fulfilment of the main social objectives in ENDESA's 2017-2019 Sustainability Plan (PES).

Area	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Local Communities	Access to energy (no. of beneficiaries)	240,000	401,141	100%
	Socio-economic development (no. beneficiaries)	42,000	120,731	100%
	Education (no. beneficiaries)	32,000	32,676	100%

Note: they consider the activities of ENDESA and its Foundation, specifically:

Access to energy: Includes projects to minimise economic barriers preventing access to energy, the promotion of technical training in the energy area, the promotion of energy efficiency, awareness-raising in the use of energy and technological development and development of infrastructures to facilitate access, and access to electricity of vulnerable groups.

Socio-economic development: Includes projects to promote employment and generate economic activity in the community, the transfer of knowledge and training and support for local business activities.

Education: Includes projects supporting training activities involving students, families, schools and universities, and fostering academic training, in general, not related with energy, through grants, professorships, etc.

New social objectives of ENDESA's 2018-2020 Sustainability Plan (PES).

Area 2018-2020 PES	Description of the Objective	2020 Objectives
Local Communities	Access to energy	1,370,000 beneficiaries until 2020 ⁽¹⁾
	Socio-economic development	374,000 beneficiaries until 2020 ⁽¹⁾
	Education	164,000 beneficiaries until 2020 ⁽¹⁾
	Extension of the creation of Shared Value Creation Model throughout the value chain	

Note: They consider the activities of ENDESA and its Foundation, detailed in the foregoing table.

(1) The data relate to 2015-2020 (cumulative).

2. Relationship Policy with Local Communities.

ENDESA's commitment to the development of the communities in which it operates is encompassed in the Company's Shared Value Creation policy (SVC), which establishes the general principles, roles, responsibilities and procedures to be used to define, implement, finance, monitor and report the procedures, processes and projects of a social nature, through the Company's entire value chain and in all its business lines and functions. The policy's objective is to legalise the business and guarantee its sustainability, creating roots in the communities and fostering progress in the local area in which the Company operates.

The Shared Value Creation (SVC) Model aims to incorporate sustainability into the Company's strategy, increasing its competitive advantages, through the contribution of a perspective that combines Company objectives with the priorities of the stakeholders.

The application of the Shared Value Creation (SVC) Model integrates specific analyses conducted proactively, enabling the obtainment of in-depth understanding of the local context, identifying the key priorities, risks, impacts and stakeholders related with the business asset/project. This is correlated with the Company's objectives. Therefore, actions and projects are identified that may build long-term relationships with the local surroundings, which are included and specified in a Shared Value Creation (SVC) Plan.

The actions and projects relating to specific business projects/assets included in the Shared Value Creation (SVC) Plan must be aligned with the United Nations Sustainable Development Goals (SDGs), with circular economy solutions and with an inclusive social approach, effectively and efficiently taking advantage of and optimising the ability and competency of the Company from an integrated perspective, which generates measured benefits for society, providing a response to its present and future requirements.

3. Key Performance Indicators.

3.1. Assessment of Management Focus. Results of our Social Objectives.

ENDESA wishes to be a player that contributes in a positive manner to the companies in which it is included, going beyond its business activity. This is demonstrated by the Company's social investment data which, according to the methodology of the London Benchmarking Group (LBG), amounts to 13.8 million euros. Therefore, it must be noted that in 2017 there were 958,335 direct beneficiaries of the projects managed, which is 8% more people than the previous year, which was 888,508 people.

The end result of ENDESA's social contribution in 2017 rose significantly with respect to other years, up 12.19% on the previous year. Likewise, it must be emphasised that investment in socio-economic development projects of the communities rose from 9%, with respect to the prior years' total, to 25% in 2017.

Main Indicators	2015	2016	2017
Social Investment as by LBG (MM euros)	11.6	12.3	13.8
Distribution of Own Social Investment	2015	2016	2017
Access to Energy Projects	43%	32%	34%
Local Communities Socioeconomic Development Projects	9%	9%	25%
Local Communities Support Projects	48%	58%	41%

4. Operations with Participation in the Local Community, Impact Assessments and Development Programmes.

4.1. No. of Beneficiaries of Access to Energy.

The beneficiaries of the energy access projects implemented by ENDESA increased by 59.89% with respect to 2016. This constitutes an example of ENDESA's commitment to the development of the Company, providing a basic asset for the well-being of people such as access to electricity of the people that lack it.

The indicator of beneficiary access to energy is of great importance for ENDESA, since one of the three Sustainable Development Goals on which it decided to focus its activity is Goal Seven Affordable and clean energy, setting the objective for 2020 of access to electricity of all vulnerable customers.

Access to Energy Beneficiaries (number)	
2015	>178,000
2016	240,249
2017	401,141

SUPPLY CHAIN

1. Material Aspects and Objectives.

1.1. List of Material Aspects.

The responsible management of the supply chain, based on the assessment of environmental, social and ethical performance, is today a key factor for the success of any company and long-term growth.

In order to reduce reputational and operational risks, responsible companies provide control mechanisms for purchasing and the arrangement of products and services that enable an assessment of whether the employees that intend to work with the Company comply with the requirements established and are aligned with the sustainable growth objectives and strategy.

Aware of the importance of the supply chain in the sustainable management of its business, ENDESA considered this aspect in the consultation performed in 2017 on its stakeholders, in order to identify the most significant aspects and where it must prioritise. In this regard, the result obtained reveals that the extension of the occupational health and safety commitment to contractors and suppliers is the most important aspect in the supply chain.

However, the control mechanisms of the supply chain established by ENDESA and reinforced through the Enel Group's "Sustainable Supply Chain" project are aimed at assessing not only the occupational health and safety parameters, but they also include environmental criteria and criteria of honourability and respect for human rights.

1.2. How the Organisation Manages Material Aspects - The results of our Goals. ENDESA'S 2017-2019 Sustainability Plan (PES).

In the Sustainability Plan, ENDESA establishes the objectives to promote the responsible management of its supply chain, incorporating occupational health and safety, environmental and respect for human rights objectives in this regard. Following is a detail of the level of compliance attained in the main objectives in 2017 and the new objectives set for the coming years.

The complete details of all the supply chain management objectives can be found in the 2017 Sustainability Report, at www.endesa.com.

Fulfilment of the main supply chain objectives in ENDESA's 2017-2019 Sustainability Plan (PES).

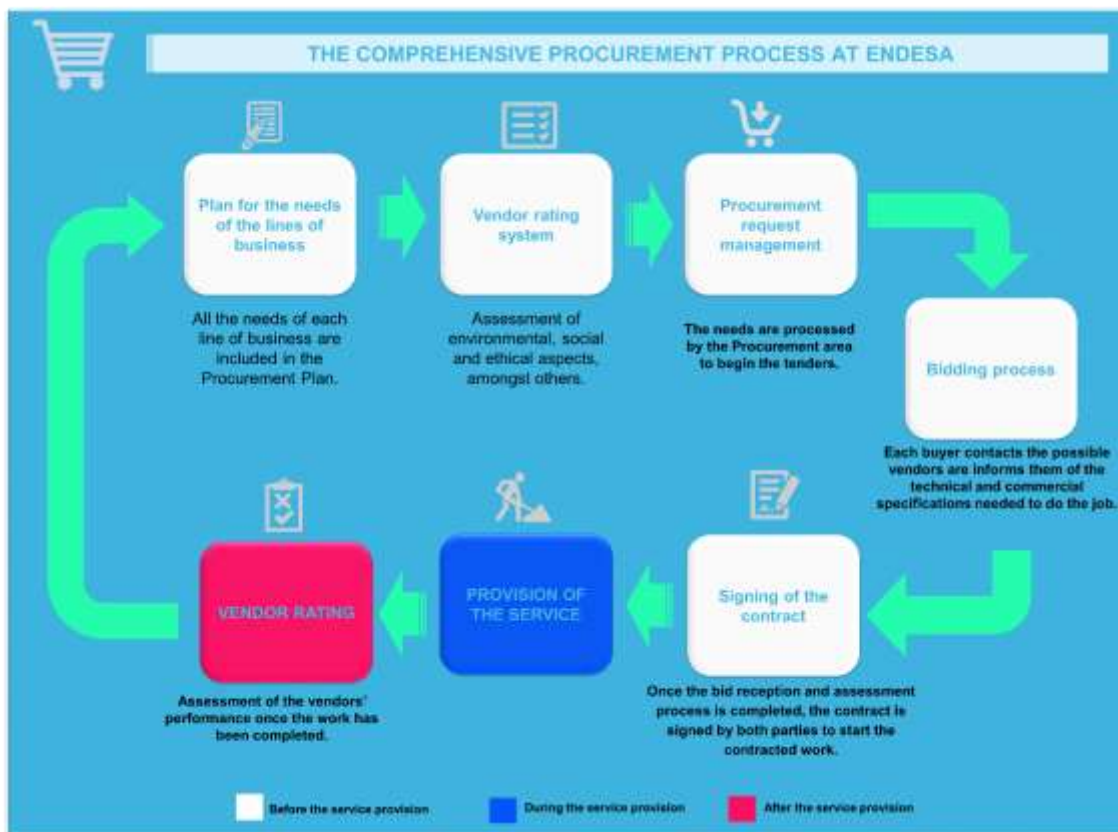
Area 2017-2019 PES	Description of the Objective	2017 Objective	2017 Result	Degree of Fulfilment
Supply Chain	% of ratings performed on suppliers in which occupational health and safety aspects are verified	65%	68.81%	100%
	% of ratings performed on suppliers in which human rights aspects are verified	20%	48.96%	100%
	% of ratings performed on suppliers in which environmental aspects are verified	20%	69.85%	100%

New supply chain objectives for ENDESA's 2018-2020 Sustainability Plan (PES).

Area 2018-2020 PES	Description of the Objective	2018 Objective	2020 Objective
Supply Chain	% of ratings performed on suppliers in which occupational health and safety aspects are verified	80%	100%
	% of ratings performed on suppliers in which human rights aspects are verified	80%	100%
	% of ratings performed on suppliers in which environmental aspects are verified	80%	100%

2. Description of the Supply Chain and Significant Changes therein.

In order to promote responsible management in the supply chain, ENDESA has an integral purchasing process, which requires suppliers to be rated in accordance with sustainability criteria (environmental, social, ethical, integrity, human rights), and with technical and economic criteria, prior to the tender process and the signing of the contract. Lastly, once the service has been provided, its level of compliance and performance is assessed.



A significant change in this process was the introduction into the supplier rating system of the new sustainability requirements, relating to compliance with human rights, environmental and occupational health and safety aspects for all suppliers that request the rating for the material families/services/work subject to these controls.

3. Policy.

3.1. Policy followed in the Selection of Suppliers, in Accordance with Social Criteria, such as Labour Relations or Human Rights.

In order to promote responsible management in the supply chain, ENDESA has an integral purchasing process, which requires suppliers to be rated in accordance with sustainability criteria (environmental, social, ethical, integrity, human rights), and with technical and economic criteria, prior to the tender process and the signing of the contract.

The supplier rating system in 2017 was applied to a series of strategic purchasing families, for those activities that require major investment and have a greater impact with respect to security and the environment and which, in 2017, accounted for 63% of the total purchasing volume.

The supplier rating system, which commenced in 2009 to reinforce compliance with the applicable

legal, employment, security and environmental protection regulations was enacted as envisaged. It determines whether a supplier complies with the requirements to work with ENDESA. This system specifically assesses, aside from compliance with the legal requirements, economic-financial solvency and technical capacity, the level of compliance of the supplier in the sustainability area, in line with previously-defined criteria, based on the risk associated with the purchasing family to which the supplier belongs:

- Assessment of compliance with human rights regulations.
- Assessment of compliance with environmental regulations.
- Assessment of compliance with occupational safety regulations.

The sustainability requirements for new rating files will enter into force in April 2017, and will apply to all supplier bases in families subject to rating from March 2018.

Furthermore, forming part of the sustainability requirements in the environmental and security areas, the need was established to obtain the related management system certifications in such areas, in conformity with the ISO 14,001 and OHSAS 18001 standards for activities designated as high risk.

At the end of 2017, the supplier rating system had been implemented in 181 purchasing families, 118 global families (international rating), and in 63 local families at ENDESA.

In 2017, 48.96% of ENDESA's new suppliers in the rating process were examined using human rights criteria; furthermore, 100% of the contractors were also examined in this area since this requirement is included in ENDESA's General Recruitment Conditions.

4. Measures taken to Apply the International Employment Conventions (ILO; OECD) in the Supply Chain.

4.1. Operations and Suppliers in which the Right to Freedom of Association and Collective Bargaining, Cases of Child Labour and Forced or Mandatory Labour could be at Risk.

As mentioned in the previous section, ENDESA's integral purchasing process determines that, prior to the tender bid and recruitment, the supplier is rated, among other sustainability criteria, in accordance with human rights criteria, and that the compliance of the supplier is specifically assessed, based on the risk associated with the purchasing family to which the supplier belongs. Based on the outcome of this assessment, specific audits may be performed to verify compliance with human rights.

The findings of such assessment revealed that, to date, no suppliers were identified at which the right to freedom of association and collective bargaining was at risk, nor were there any cases of child labour or forced or mandatory labour.

Specifically with respect to the suppliers of the coal supply chain, since this area has been identified as a particularly relevant area due to its potential environmental, social and human rights impact, ENDESA forms part of the Bettercoal initiative, through its Parent ENEL. Such initiative transfers the expectations of the Bettercoal members to the suppliers, organising its practices around four axes: management, ethical performance and transparency, human and employment rights and environmental performance, promoting on-going improvement. In this regard, a code has been defined which includes ten principles relating to the four axes mentioned, and an analysis is performed, which includes the supplier's self-assessment and the audit at facility level to determine the degree of compliance of the supplier and define improvement plans. The

outcome of such analyses has not identified any notable human rights breaches. All the information is available at www.bettercoal.org.

4.2. Operations Submitted to Reviews or Assessments of the Human Rights Impact.

Following the criteria used in prior years, we consider significant suppliers to be those whose total contracts signed are equal to or higher than one million euros, and that have a corporate social responsibility (CSR) score. In 2017, 288 contracts were booked that exceeded this amount, corresponding to a total of 255 suppliers (215 local and 40 foreign). Of these 255 suppliers, 193 of them have a CSR score on the Repro registration local platform of our rating system.

All these contracts include human rights clauses, relating to the Global Compact and Ethical Regulations (clauses 26 and 27), including the supplier's commitment to comply with the principles of the Global Compact, which include those relating to human rights, together with the commitment to comply with the legal regulations on the protection of child labour and women; equal opportunities; the prohibition of discrimination; abuse and harassment; freedom of association and representation; forced labour; environmental security and protection; hygienic sanitary conditions; as well as compliance with the prevailing legislation on salaries, pensions and social security contributions, insurance, taxes, etc., in relation to employees with any purpose for the execution of the contract.

With this criteria, based on contractual clauses, all of the operations were reported to have been submitted to review or assessment with regard to their impact on human rights.

Main Contractors and Suppliers Assessed on Human Rights		
Significant suppliers and contractors assessed on human rights	2015	102
	2016	234
	2017	193
% of Significant suppliers and contractors assessed on human right	2015	51%
	2016	100%
	2017	100%

Also, within the supplier rating process, since the entry into force of the sustainability requirements in April 2017 for new rating requests, a total of 149 suppliers were analysed in the area of human rights, relating to 190 rating processes, through the analysis of a questionnaire provided for this purpose in the rating circuit.

This meant that in 2017, 48.96 % of new ENDESA suppliers in the rating process were examined with regard to human rights criteria. This review is performed with respect to the rating requests received, without distinguishing significant suppliers as defined in the previous point.

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(Free translation from the Original Independent Limited Assurance Report in Spanish dated February 26, 2018. In case of any discrepancy, the Spanish version always prevails.)

INDEPENDENT LIMITED ASSURANCE REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL INFORMATION

To the Board of Directors of Endesa, S.A.

Scope of work

We have carried out a limited assurance engagement on the consolidated non-financial information contained in the non-financial information statement of Endesa Group for the year ended December 31, 2017, prepared in accordance with Royal Decree-Law 18/2017 of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures as explained in section 1.5 "Criteria for the preparation of the Statement of non-financial consolidated information".

Responsibility of the directors

ENDESA, S.A.'s directors are responsible for the preparation, content, and presentation of the Consolidated Non-financial Information Statement in conformity with Royal Decree-Law 18/2017, of November 24. This responsibility includes the design, implementation, and maintenance of the internal control considered necessary to ensure that the consolidated non-financial information statement is free of material misstatement, due to fraud or error.

The directors of ENDESA, S.A. are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information is obtained for preparing the consolidated non-financial information.

Our responsibility

Our responsibility is to issue a report of limited assurance based on the procedures we carried out and the evidence we obtained. We have performed our limited assurance work in accordance with the stipulations of International Standard on Assurance Engagements 3000 (ISAE), "Assurance engagements other than Audits and Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

In limited assurance work, the procedures carried out vary in their nature and timing and cover less material than those carried out in reasonable assurance work and, therefore, the assurance provided is also less.

The procedures we carried out for purposes of this engagement are based on our professional judgment and consisted in the formulation of questions for Management and the application of certain analytical procedures and review tests by sampling. Specifically, the following procedures were performed:

- Reading and gaining an understanding of the information prepared by the Group and included in the Consolidated non-financial information statement and evaluation as to whether said information encompasses all the content required by Royal Decree-Law 18/2018, of No 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.
- Interviewing those in charge of the preparation of the consolidated non-financial information statement for the purpose of gaining an understanding of the policies applicable to the Group in terms of environmental and social matters, as well as personnel, respect for human rights, the fight against corruption, bribery, and the results of those policies, as well as the principle risks related to these matters.
- Analyzing the processes for compiling and validating the non-financial information contained in the consolidated non-financial information statement.
- Verifying the processes put in place by the Group to determine material matters as well as the participation of stakeholders in them.
- Verifying, via review tests on a sample basis, the quantitative and qualitative information related to the indicators disclosed in the report included the GRI content index, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide a limited level of assurance.
- Obtaining a representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the consolidated non-financial information statement.

Our independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable.

Conclusions

As a result of the procedures performed and of the evidence obtained, no matter has come to our attention that would cause us to conclude that the consolidated non-financial information contained in the non-financial information statement of the Endesa Group for the year ended December 31, 2017 contain significant errors or have not been prepared in accordance with Royal Decree-Law 18/2017, of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.

Other matters

This report can under no circumstances be considered an audit carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

María del Tránsito Rodríguez Alonso

February 26, 2018

The Consolidated Management Report of **ENDESA, Sociedad Anónima and its SUBSIDIARY COMPANIES** for fiscal year ending December 31, 2017, as provided herein, was drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 26, 2018** and is hereinbelow signed by all of its Directors in compliance with Article 253 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*).

Borja Prado Eulate Chairman	Francesco Starace Vice Chairman
José Damián Bogas Gálvez Chief Executive Officer	Alejandro Echevarría Busquet Director
Ignacio Garralda Ruiz de Velasco Director	Maria Patrizia Grieco Director
Francisco de Lacerda Director	Alberto de Paoli Director
Helena Revoredo Delvecchio Director	Miguel Roca Junyent Director
Enrico Viale Director	

Madrid, February 26, 2018