

An aerial photograph of a crowded pedestrian bridge, likely the Puente de la Mujer in Buenos Aires. The bridge's surface is composed of vertical stripes in a vibrant blue and a warm brown color. Numerous people are seen walking across the bridge, their shadows cast long and dark on the surface. The bridge's white metal railings and support structure are visible in the background.

Legal Documentation 2018

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

endesa

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An aerial photograph of a busy pedestrian bridge. The bridge features vertical wooden slats and blue-tinted glass panels. Numerous people are walking across the bridge, and their shadows are cast onto the surface. The background shows a city street with white lane markings and a building with a grid-like facade.

ENDESA, S.A.

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Statement of Responsibility

STATEMENT OF RESPONSIBILITY

ANNUAL FINANCIAL REPORT FISCAL YEAR 2018

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, 2018, drafted at its meeting on February 25, 2019, were issued in accordance with all applicable accounting principles and offer a true and fair view of the equity, financial position, and earnings of Endesa S.A. and the companies within its consolidation perimeter, and that the individual and consolidated management reports for fiscal year 2018 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, 25 February 2019



Audit Report



Audit Report on Financial Statements
issued by an Independent Auditor

ENDESA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2018



Ernst & Young, S.L.
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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

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, 2018, 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, 2018 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, 2018, the Company had recognized in non-current assets investments in the equity of group companies and associates amounting to 18,893 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.

Other information: management report

Other information refers exclusively to the 2018 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 2018 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.



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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.

A member firm of Ernst & Young Global Limited.

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 25, 2019.

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)

Olatz Díez de Artazcoz Herreros

February 25, 2019

Financial Statements

for the year ended 31 December 2018

(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 2018 and 2017

Millions of Euros

	Note	31 December 2018	31 December 2017
ASSETS			
NON-CURRENT ASSETS		19,175	15,101
Intangible assets	5	117	125
Patents, licences, trademarks and similar		3	6
Software		114	119
Property, plant and equipment	6	2	1
Facilities and other property, plant and equipment		2	1
Non-current investments in Group companies and associates	8 and 18.2	18,894	14,803
Equity instruments		18,893	14,793
Derivatives	14	1	10
Non-current financial investments	8	45	40
Equity instruments		5	5
Loans to third parties		5	5
Derivatives	14	10	—
Other financial assets		25	30
Deferred tax assets	15.6	117	132
CURRENT ASSETS			
Trade and other receivables		135	159
Other receivables		38	122
Receivables from Group companies and associates	18.2	92	35
Receivable from employees		1	2
Current income tax assets		—	—
Other receivables from Public Administrations	15.8	4	—
Current investments in Group companies and associates	8 and 18.2	1,455	95
Loans to companies		78	62
Derivatives	14	9	33
Other financial assets		1,368	—
Current financial investments	8	59	15
Loans to third parties		10	11
Derivatives	14	49	4
Other financial assets		—	—
Cash and cash equivalents		13	30
Cash in hand and at banks		13	30
TOTAL ASSETS		20,837	15,400

The accompanying notes 1 to 22 form an integral part of the Statements of Financial Position at 31 December 2018 and 2017.

ENDESA, S.A.

Statements of Financial Position

at 31 December 2018 and 2017

Millions of Euros

	Note	31 de diciembre de 2018	31 de diciembre de 2017
EQUITY AND LIABILITIES			
EQUITY		8,091	8,044
Capital and reserves	10	8,091	8,044
Share capital		1,271	1,271
Registered capital		1,271	1,271
Share premium		89	89
Reserves		1,445	1,445
Legal and statutory reserves		254	254
Other reserves		1,191	1,191
Prior years' profit and loss		4,516	4,489
Retained earnings		4,516	4,489
Profit for the period		1,511	1,491
Interim dividend	3 and 10.4	(741)	(741)
NON-CURRENT LIABILITIES		10,688	5,312
Non-current provisions	11	281	323
Non-current employee benefits:		71	73
Provisions for workforce restructuring plans		150	190
Other provisions		60	60
Non-current debts	12	1,391	743
Bank borrowings		1,387	731
Finance lease payables		1	—
Derivatives	14	1	9
Other financial liabilities		2	3
Non-current debts to Group companies and associates	12 and 18.2	8,982	4,212
Debts to Group companies and associates		8,971	4,211
Derivatives	14	11	1
Deferred tax liabilities	15.7	34	34
CURRENT LIABILITIES		2,058	2,044
Current provisions	11	60	54
Provisions for workforce restructuring plans		51	45
Other provisions		9	9
Current debts	12	284	277
Bank borrowings		50	19
Finance lease payables		—	1
Derivatives	14	9	32
Other financial liabilities		225	225
Current debts to Group companies and associates	12 and 18.2	1,575	1,522
Debts to Group companies and associates		987	977
Derivatives	14	49	4
Other financial liabilities		539	541
Trade and other payables		139	191
Group companies and associates suppliers	18.2	36	93
Other payables		75	74
Personnel (salaries payable)		22	19
Other payables to Public Administrations	15.8	6	5
TOTAL EQUITY AND LIABILITIES		20,837	15,400

The accompanying notes 1 to 22 form an integral part of the Statements of Financial Position at 31 December 2018 and 2017.





ENDESA, S.A.

Income Statements

for the years ended at 31 December 2018 and 2017

Millions of Euros

	Note	2018	2017
CONTINUING OPERATIONS			
Revenue	16.1	1,969	1,763
Rendering of services		277	260
Dividend income from Group companies and associates	8.1.1 and 18.1	1,692	1,503
Self-constructed assets		—	1
Procurements		—	(1)
Consumption of raw materials and other consumables		—	(1)
Other operating income		8	17
Ancillary and other administrative income		8	17
Personnel expenses	16.2	(159)	(145)
Salaries and wages, and similar		(119)	(120)
Other employee benefits		(34)	(31)
Provisions		(6)	6
Other operating expenses	16.3	(214)	(225)
External services		(112)	(113)
Taxes other than income tax		(3)	(1)
Other administrative expenses		(99)	(111)
Depreciation and amortisation of non-current assets	5 and 6	(34)	(29)
Provision surpluses		3	—
Other gains/losses	16.4	—	222
PROFIT FROM OPERATIONS		1,573	1,603
Financial income	16.5	15	28
From marketable securities and other non-current credits		15	28
Group companies and associates	18.1	4	6
Other		11	22
Financial expense	16.5	(128)	(145)
Interest on borrowings from Group companies and associates	18.1	(119)	(132)
Interest on debts to third parties		(6)	(9)
Provision adjustments		(3)	(4)
Change in fair value of financial instruments		(2)	2
Trading portfolio and other securities		(2)	2
Exchange gains/(losses)		3	(1)
NET FINANCIAL PROFIT/(LOSS)		(112)	(116)
PROFIT BEFORE TAX		1,461	1,487
Income tax	15	50	4
PROFIT AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS		1,511	1,491
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS		—	—
PROFIT FOR THE YEAR		1,511	1,491

The accompanying Notes 1 to 22 form an integral part of the Income Statements the years ended 31 December 2018 and 2017.

ENDESA, S.A.

Statements of Changes in Equity

for the years ended 31 December 2018 and 2017

A) Statements of Recognised Income and Expense for the years ended 31 December 2018 and 2017

Millions of Euros

	Note	2018	2017
PROFIT FOR THE YEAR		1,511	1,491
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
From actuarial gains and losses and other adjustments	11.1	—	4
Income tax effect	15	—	(1)
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		—	3
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		—	—
TOTAL RECOGNISED INCOME/(EXPENSES)		1,511	1,494

The accompanying Notes 1 to 22 form an integral part of the Statements of Recognised Income and Expense for the years ended 31 December 2018 and 2017.





ENDESA, S.A.

Statements of Changes in Equity

for the years ended 31 December 2018 and 2017

B) Statements of Total Changes in Equity for the years ended 31 December 2018 and 2017

Millions of Euros

31 December 2018						
Note	Capital and reserves					Total equity
	Share capital (Note 10.1)	Share premium (Note 10.2)	Reserves and prior years' profit and loss (Note 10.3)	Profit for the year (Note 3)	(Interim dividend) (Note 3)	
Balance at 31 December 2017	1,271	89	5,934	1,491	(741)	8,044
TOTAL RECOGNISED INCOME/ (EXPENSES)	—	—	—	1,511	—	1,511
Transactions with shareholders	—	—	—	—	(741)	(741)
Dividends paid 3 and 10.4	—	—	—	—	(741)	(741)
Other changes in equity	—	—	27	(1,491)	741	(723)
Distribution of profit 3	—	—	27	(1,491)	741	(723)
Balance at 31 December 2018	1,271	89	5,961	1,511	(741)	8,091

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 (Note 10.3)	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 10.4	—	—	—	—	(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

The accompanying notes 1 to 22 form an integral part of the statements of total changes in equity for the years ended 31 December 2018 and 2017.

ENDESA, S.A.

Statements of Cash Flows

for the years ended 31 December 2018 and 2017

Millions of Euros

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		105	1,549
Profit before tax		1,461	1,487
Adjustments for:		(1,535)	(1,353)
Income from dividends	8.1, 16.1 and 18.1	(1,692)	(1,503)
Depreciation and amortisation of non-current assets	5 and 6	34	29
Changes in provisions		8	6
Financial income	16.5	(15)	(28)
Financial expense	16.5	128	145
Change in the fair value of financial instruments		2	(2)
Changes in working capital		(28)	(10)
Other cash flows from operating activities		207	1,425
Interest paid		(133)	(132)
Dividends received		324	1,503
Interest received		15	6
Income tax received/(paid)		46	99
Other proceeds from/(payments for) operating activities		(45)	(51)
CASH FLOWS FROM INVESTING ACTIVITIES		(4,124)	(24)
Payments for investments		(4,135)	(32)
Group companies and associates	8.1	(4,100)	—
Property, plant and equipment and intangible assets		(29)	(32)
Other financial assets		(6)	—
Proceeds from sale of investments		11	8
Other financial assets		11	8
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		4,002	(1,516)
Proceeds from and (payments) for financial liability instruments		5,465	(105)
Issue		5,481	305
Redemption and repayment		(16)	(410)
Dividends and interest on other equity instruments paid		(1,463)	(1,411)
Dividends	10.4	(1,463)	(1,411)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(17)	9
CASH AND CASH EQUIVALENTS AT 1 JANUARY		30	21
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		13	30

The accompanying Notes 1 to 22 form an integral part of the statements of cash flows for the years ended 31 December 2018 and 2017.



Notes to the Financial Statements

for the year ended 31 December 2018

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



1. Company activity and financial statements

ENDESA, S.A. (hereinafter “the Company”) was incorporated with limited liability 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 Shareholders’ Meeting 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 2018 were drawn up by the Board of Directors on 25 February 2019 and will be submitted for approval by the General Shareholders’ Meeting. They are expected to be approved with no changes. The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 26 February 2018 and approved by the shareholders at the General Shareholders’ Meeting on 23 April 2018 and filed with the Madrid Mercantile Registry.

The Company holds interests in subsidiaries, jointly-controlled entities and associates. 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 25 February 2019, the directors authorised for issue the consolidated financial statements of ENDESA, S.A. and subsidiaries (hereinafter “ENDESA”) for the year ended 31 December 2018, 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 2017 of ENDESA, S.A. and its subsidiaries, which were prepared by the Board of Directors on 26 February 2018 and approved by the shareholders at the General Shareholders’ Meeting on 23 April 2018, were filed at the Madrid Mercantile Registry.

The key figures from the consolidated financial statements for 2018 and 2017 of ENDESA, S.A. and subsidiaries are as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Total assets	31,656	31,037
Equity	9,181	9,233
Of the Parent	9,037	9,096
Of non-controlling interests	144	137
Revenue	20,195	20,057
Profit after tax from continuing operations	1,426	1,473
Profit after tax from discontinued operations	—	—
Profit for the year	1,426	1,473
Of the Parent	1,417	1,463
Of non-controlling interests	9	10

At 31 December 2018 and 2017, the ENEL Group controlled 70.101 % 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 2017, prepared on 16 March 2018 and approved by the sole shareholder on 3 May 2018, were filed with the Madrid Mercantile Registry.

The consolidated financial statements of ENEL, S.p.A., parent company of ENDESA, S.A., and its subsidiaries for the year ended 31 December 2017, were approved by the shareholders at the General Shareholders' Meeting held on 24 May 2018 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 2018 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 2016.

The financial statements present fairly the equity and financial position of the Company at 31 December 2018, 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 policies

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.

On the preparation of 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 workforce reduction plans and contract suspension agreements (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 "Social Bonus"- (see Notes 11.3 and 16.3).
- 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 expenses 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 2018, the Company has negative working capital of Euros 396 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 credit lines (see Note 13.3), provide assurance that the Company can obtain sufficient financial resources to continue its operations, 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 2018 are presented in millions of Euros. The Company's functional and presentation currency is the Euro.

2.6. Comparative 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 2018 include comparative figures forming part of the financial statements for the year ended 31 December 2017 approved by the General Shareholders' Meeting on 23 April 2018.

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 2018

The allocation of the result for 2018 proposed by the Board of Directors and to be submitted to the General Shareholders' Meeting for approval is as follows:

Basis of distribution for 2018	Euros
Profit and loss: Profit	1,510,858,443.24
Total	1,510,858,443.24
Distribution	
Dividends ¹	1,510,839,270.96
To retained earnings	19,172.28
Total	1,510,858,443.24

¹ Maximum amount to be distributed based on Euros 1.427 gross per share for all shares (1,058,752,117 shares).

On 20 November 2018, ENDESA S.A.'s Board of Directors approved the distribution of an interim dividend against 2018 income of Euros 0.70 gross per share, which gave rise to a payment of Euros 741 million on 2 January 2019 (see Note 10.4).

Pursuant to Article 277 of Royal Legislative Decree 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 2018 to 31 October 2019
Available at start of period	2,592
Cash in hand and at banks, and cash equivalents	95
Available loans with group companies	2,497
Increases in cash	2,141
Ordinary activities	295
Financial transactions	1,846
Decreases in cash	(3,018)
Ordinary activities	(345)
Financial transactions	(2,673)
Available at end of period	1,715
Proposed interim dividend on 2018 results	741

This amount does not exceed the earnings obtained by the Company in 2018, 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 2017

The allocation of the 2017 result approved at the General Shareholders' Meeting was as follows.

Basis of distribution for 2017	Euros
Profit and loss: Profit	1,491,524,172.41
Total	1,491,524,172.41
Distribution	
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).

At the General Shareholders' Meeting of ENDESA, S.A. held on 23 April 2018 approval was given to pay a total dividend out of 2017 profit equivalent to Euros 1.382 (gross) per share. An interim dividend of Euros 0.7 per share (Euros 741 million) was paid on 2 January 2018, charged to 2017 profit, and a final dividend amounting to Euros 0.682 gross per share (Euros 722 million) was paid on 2 July 2018, also charged to 2017 profit (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	
	2018	2017
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 those that, not having a commercial origin, are not equity instruments or derivatives and whose collections are of a fixed amount or determinable 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 2018 or 2017.

→ Financial assets at fair value through profit or 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 in the income statement.

> Other financial assets at fair value through profit or loss include financial assets that are recognised at fair value through profit or 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 or loss.

→ Available-for-sale financial assets: this category includes 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. They 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 assessed 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 continuing 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 the Company business, or those which, though not considered derivative instruments, have no commercial origin.

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 mature at no more than one year 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 not updating cash flows is insignificant.

→ 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 in the income statement.

> 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 in the income statement.

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 discount and growth rates applied in 2018 and 2017 were as follows:

%		
	2018	2017
Discount rate	4.9-8.3	5.4-7.3
Growth rate	1.6	1.7





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 also investments required to implement the remote metering plan, and supply activities takes account of the investment required to bring about other products and services.
- 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.
- 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 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 2018 from the expectations established in the projections used for impairment testing at 31 December 2017 were positive. As a result, both profits and cash flow generated in 2018 were similar to those forecast for the year in the impairment tests carried out for the preparation of the consolidated financial statements for 2017.

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 or 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 in the measure that 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 or 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.
- 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.

Obligations existing at the statement of financial position as provisions for long-term employee benefits and for restructuring plans 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

The Company 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, 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: (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 investments - 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 in the statement of financial position.

f.2. Provisions for workforce restructuring plans

The Company recognises termination or contract 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 workforce restructuring plans, 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.





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 undertaken 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) Income tax expense

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 realisation 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 revenue-producing activities of the Company, in addition to other activities that are not investing or financing activities.
- Investing activities: The acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: Activities that result in changes in the size and composition of equity and financial liabilities.



5. Intangible assets

At 31 December 2018 and 2017, the composition and movements of this item of the accompanying statement of financial position were as follows:

Millions of Euros

	Balance at 31 December 2017	Investment and provisions	Derecognitions and transfers	Balance at 31 December 2018
Cost:				
Patents, licences, trademarks and similar	39	5	—	44
Software	310	20	—	330
Total	349	25	—	374
Accumulated amortisation:				
Patents, licences, trademarks and similar	(33)	(8)	—	(41)
Software	(191)	(25)	—	(216)
Total	(224)	(33)	—	(257)
NET TOTAL	125	(8)	—	117

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:				
Patents, licences, trademarks and similar	(27)	(6)	—	(33)
Software	(169)	(22)	—	(191)
Total	(196)	(28)	—	(224)
NET TOTAL	117	8	—	125

The investments in software made in 2018 corresponded to acquisitions from ENDESA Medios y Sistemas, S.L.U. (Euros 24 million from ENDESA Medios y Sistemas, S.L.U. and Euros 2 million from ENEL Italia, S.r.L. during 2017) (see Note 18.1).

Fully amortised intangible assets still in use had a cost of Euros 30 million at 31 December 2018 (Euros 30 million at 31 December 2017).

At 31 December 2018, intangible asset purchase commitments amounted to Euros 13 million. At 31 December 2017, no intangible asset purchase commitments for material amounts existed.

6. Property, plant and equipment

At 31 December 2018 and 2017, the composition and movements of this item of the accompanying statement of financial position were as follows:

Millions of Euros

	Balance at 31 December 2017	Investment and provisions	Disposals and transfers	Balance at 31 December 2018
Cost:				
Facilities and other property, plant and equipment	5	2	—	7
Total	5	2	—	7
Accumulated depreciation:				
Facilities and other property, plant and equipment	(4)	(1)	—	(5)
Total	(4)	(1)	—	(5)
NET TOTAL	1	1	—	2

Millions of Euros

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

There was no fully depreciated property, plant and equipment still in use at the Company on 31 December 2018 and 2017.

At 31 December 2018 and 2017, 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 where its headquarters is located from Group company ENDESA Medios y Sistemas, S.L.U., which expires in 2023. Lease payments made in this regard in 2018, amounted to Euros 9 million, the same figure as in 2017. (see Notes 16.3 and 18.1).

In addition, ENDESA, S.A. is the lessee of several buildings with leases that expire between 2019 and 2028. Lease payments made in this regard in 2018 and 2017 amounted to Euros 1 million in both years (see Note 16.3).

At 31 December 2018 and 2017, the minimum lease payments payable by the Company under operating leases are as follows:

Millions of Euros		
	Nominal Value	
	31 December 2018	31 December 2017
Within one year	9	9
Between one year and five years	30	37
More than five years	4	6
Total	43	52

8. Current and non-current financial assets

At 31 December 2018 and 2017, 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 are as follows:

Millions of Euros

	Note	Balance at 31 December 2017	Additions and provisions	Disposals	Transfers and other	Balance at 31 December 2018
Non-current investments in Group companies and associates	18.2	14,803	4,101	—	(10)	18,894
Equity instruments	8.1.1	14,793	4,100	—	—	18,893
Investments in Group companies and associates		14,793	4,100	—	—	18,893
Impairment losses		—	—	—	—	—
Loans to companies	8.1.2	—	—	—	—	—
Loans to companies		54	—	—	—	54
Impairment losses	8.1.3	(54)	—	—	—	(54)
Derivatives	14	10	1	—	(10)	1
Non-current financial investments		40	14	(8)	(1)	45
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	—	11	—	(1)	10
Other financial assets	8.2.3	30	3	(8)	—	25
NON-CURRENT FINANCIAL ASSETS		14,843	4,115	(8)	(11)	18,939





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
Investments 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

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 2018 and 2017 are as follows.

Millions of Euros

	Note	31 December 2018	31 December 2017
Current investments in Group companies and associates	18.2	1,455	95
Loans to companies	8.1.2	78	62
Loans to Group companies and associates		78	62
Impairment losses		—	—
Derivatives	14	9	33
Other financial assets	8.1.4	1,368	—
Current financial investments		59	15
Loans to third parties		10	11
Loans to third parties		10	11
Derivatives	14	49	4
Other financial assets		—	—
TOTAL CURRENT FINANCIAL ASSETS		1,514	110

8.1. Non-current and 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 2018 and 2017, as well as the most significant information regarding each investment at those dates, are as follows.



Group companies and associates: 2018 (Millions of Euros)

Company ¹		Activity	% direct ownership	Share capital	Reserves	Interim dividend	Profit/(loss) for the year			Total equity	Grants, donations and bequests received	Valuation adjustments	Non-controlling interests	Carrying amount		Dividends received (Notes 16.1 and 18.1)
Registered office	Profit from operations						Net profit/(loss)	Impairment in the year	Accumulated impairment					Cost		
Group companies:																
ENDESA Energía, S.A.U. – Madrid ²	Marketing of energy products	100%	15	1,081	—	59	13	1,109	—	(22)	—	1,087	1,134	—	—	—
ENDESA Generación, S.A.U. – Seville ²	Electricity production and retailing	100%	1,940	4,079	(365)	528	401	6,055	44	(383)	—	5,716	5,891	—	—	655
ENDESA Red, S.A.U. – Madrid ²	Distribution activities	100%	720	2,869	(844)	1,429	1,046	3,791	4,542	(325)	—	8,008	2,440	—	—	846
International ENDESA, B.V. – Holland	International financial transaction company	100%	15	6	—	—	1	22	—	—	—	22	18	—	—	—
ENDESA Medios y Sistemas, S.L.U. – Madrid	Rendering of services	100%	90	69	—	11	7	166	—	—	—	166	167	—	—	—
ENDESA Financiación Filiales, S.A.U. – Madrid	ENDESA, S.A. subsidiary financing	100%	4,621	4,621	(147)	195	148	9,243	—	—	—	9,243	9,242	—	—	191
ENDESA X, S.A.U. – Madrid	Marketing of energy products	100%	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Rest of Group												—	1	—	—	—
TOTAL												18,893		—	—	1,692

¹ Unaudited figures.

² Figures related to information of the consolidated subgroup.



Group companies and associates: 2017 (Millions of Euros)

Company	Activity	% direct ownership	Share capital	Reserves	Interim dividend	Profit/(loss) for the year		Grants, donations and bequests received	Valuation adjustments	Non-controlling interests	Total equity	Carrying amount		Dividends received (Notes 16.1 and 18.1)
Registered office						Profit from operations	Net profit/(loss)					Cost	Impairment in the year	Accumulated impairment
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	(336)	—	5,236	3,891	—	888
ENDESA Red, S.A.U. - Madrid ²	Distribution activities	100%	720	1,319	(443)	1,453	1,048	2,644	(321)	—	7,027	1,440	—	443
International ENDESA, B.V. - Holland ¹	International financial transaction company	100%	15	4	—	—	1	20	—	—	20	18	—	—
ENDESA Medios y Sistemas, S.L.U. - Madrid ¹	Rendering of services	100%	90	74	—	1	(6)	158	—	—	158	167	—	—
ENDESA Financiación Filiales, S.A.U. - Madrid ¹	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 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 2018 and 2017, ENDESA also held 100% of ENDESA Capital, S.A.U. and ENDESA Generación II, S.A.U.

Most significant changes in 2018 and 2017

2018

On 26 June 2018, a public deed was drawn up for ENDESA X, S.A. (Single-Member Company) with share capital of Euros 60,000, represented by 60.000 shares, with a par value of Euros 1 each, fully subscribed and paid in by the sole shareholder, ENDESA, S.A., through a cash contribution, and registered in the Madrid Companies Register on 27 July 2018.

On 16 November 2018, ENDESA S.A. approved contributions to its subsidiaries to strengthen their financial position. These contributions were registered as greater participation and amount to Euros 1,100,000 thousand in ENDESA Energía, S.A.U. Euros 2,000,000 thousand in ENDESA Generación, S.A.U. and Euros 1,000,000 thousand in ENDESA Red, S.A.U.

2017

In 2017, no significant transactions were registered.

8.1.2. Current and non-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 Energy, Tourism and Digital Agenda (currently Ministry of Ecological Transition), 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 (currently the Ministry of Ecological Transition) 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 (currently the Ministry of Ecological Transition), which included the minimum conditions needed to make the company viable. On 18 January 2016, the Ministry of Energy, Tourism and Digital Agenda (currently the Ministry of Ecological Transition) rejected the proposed plan and therefore, given the lack of a feasibility plan, on 21 January the Board of Directors of Elcogas, S.A. agreed to proceed with the disconnection and closure of the plant before the deadline set by the aforementioned Ministry (currently the Ministry of Ecological Transition).

At 31 December 2018 and 2017, the loan granted to Elcogas, S.A. was recognised under "Non-current loans and advances to Group companies and associates" and is completely written off. Its maturity date is subject to Elcogas, S.A. having satisfied all its social debts, which given the current plant closing schedule, It will occur in a period greater than 12 months.

In addition, at 31 December 2018, current loans and advances to Group companies and associates includes the amounts receivable from ENEL Iberia, S.L.U. corresponding to income tax expense for the amount of Euros 78 million (Euros 58 million at December 2017). The receivable for income tax in 2018 of Euros 70 million (Euros 18 million at 31 December 2017) is an estimate and therefore interest-free, as it will be settled in 2019 when the income tax expense return is filed (see Notes 15.9 and 18.2).





8.1.3. Impairment

During 2018 and 2017, impairment losses on current loans and advances to Group companies and associates and any reversals thereof are as follows.

Millions of Euros

	2018	2017
Balance at 1 January	54	—
Transfers to current	—	54
Transfers to current	—	—
Balance at 31 December	54	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).

8.1.4. Other financial assets

At 31 December 2018, “Other financial assets” within current investments in Group companies and associates included a receivable dividend of Euros 1,368 million, of which Euros 570 million corresponded to ENDESA Red, S.A.U., Euros 143 million to ENDESA Financiación Filiales, S.A.U. and Euros 655 million to ENDESA Generación, S.A.U.

8.2. Current and non-current investments

8.2.1. Equity instruments

Investments in equity instruments held at 31 December 2018 and 2017, totalled Euros 5 million, respectively.

8.2.2. Non-current loans to third parties

At 31 December 2018 and 2017, Euros 5 million was also recognised under this heading in relation to non-current loans to staff.

At 31 December 2018 and 2017, 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 2018 and 2017, included under this heading were Euros 25 million and Euros 30 million, respectively, for the deposit made to guarantee payment for future services from the employees who are members of the ENDESA, S.A.’s defined benefit pension scheme (see Note 11.1).

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

Non-current and current financial assets, excluding equity instruments in Group companies and associates, by class and category at 31 December 2018 and 2017 are as follows:

Millions of Euros

		31 December 2018			
	Note	Financial assets held for trading	Available-for-sale financial assets	Loans and receivables	Total
Non-current investments in Group companies and associates		1	—	—	1
Derivatives	14	1	—	—	1
Non-current financial investments		10	5	30	45
Equity instruments		—	5	—	5
Loans to third parties		—	—	5	5
Derivatives	14	10	—	—	10
Other financial assets		—	—	25	25
Total non-current financial assets		11	5	30	46
Current investments in Group companies and associates		9	—	1,446	1,455
Loans to companies		—	—	78	78
Derivatives	14	9	—	—	9
Other financial assets		—	—	1,368	1,368
Current financial investments		49	—	10	59
Loans to third parties		—	—	10	10
Derivatives	14	49	—	—	49
Trade and other receivables		—	—	131	131
Cash and cash equivalents		—	—	13	13
Total current financial assets		58	—	1,600	1,658
TOTAL		69	5	1,630	1,704

Millions of Euros

		31 December 2017			
	Note	Financial assets held for trading	Available-for-sale financial assets	Loans and receivables	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
Total 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

Financial assets held for trading and available-for-sale financial assets 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 2018 and 2017, 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

At 31 December 2018 and 2017, the breakdown by maturity of non-current financial assets, excluding equity instruments, was as follows:

Millions of Euros

31 December 2018	2020	2021	2022	2023	Subsequent years	Total
Non-current investments in Group companies and associates	1	—	—	—	—	1
Derivatives	1	—	—	—	—	1
Non-current financial investments	12	1	2	1	24	40
Loans to third parties	2	1	1	—	1	5
Derivatives	10	—	—	—	—	10
Other financial assets	—	—	1	1	23	25
NON-CURRENT FINANCIAL ASSETS	13	1	2	1	24	41

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

8.5. Items recognised in the income statement and in equity

In 2018 and 2017, the applications made in the income statement and in net equity linked to financial assets grouped by the different categories are as follows:

Millions of Euros

	2018		2017	
	Net profit/ (loss)	Equity	Net profit/ (loss)	Equity
Loans and receivables	13	—	24	—
Assets at fair value through profit or loss	128	—	109	—
Held for trading	128	—	109	—
TOTAL	141	—	133	—

8.6. Financial assets at fair value through profit or loss

In 2018 and 2017, the changes in the fair value of non-current and current financial assets at fair value through profit or loss were as follows.

Millions of Euros

	Fair value at 31 December 2017	Change in fair value of derivatives	Settlement of derivatives	Other movements	Fair value at 31 December 2018
Financial assets at fair value through profit or loss	47	128	(70)	(36)	69
Non-current	10	12	—	(11)	11
Current	37	116	(70)	(25)	58
TOTAL	47	128	(70)	(36)	69

Millions of Euros

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

8.7. Financial investment commitments

At 31 December 2018 and 2017, ENDESA, S.A. had no agreements that included commitments to make financial investments of a significant amount.





9. Foreign currency

Details of the most significant balances at 31 December 2018 and 2017 in foreign currency are as follows:

Millions of Euros

		31 December 2018	31 December 2017
	Note	US dollar (USD)	
CURRENT ASSETS		2	4
Trade and other receivables		2	—
Trade receivables		1	—
Receivables from Group companies and associates		1	—
Current investments in Group companies and associates	8.1.2 and 18.2	—	4
Loans to companies		—	4
TOTAL ASSETS		2	4

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

During 2018 and 2017, the transactions denominated in foreign currency of significant amounts are as follows:

Millions of Euros

	2018	2017
	US dollar (USD)	
Revenue	—	—
PROFIT FROM OPERATIONS	—	—
Financial income	1	4
Change in fair value of financial instruments	(1)	—
NET FINANCIAL PROFIT/(LOSS)	—	4
PROFIT BEFORE TAX	—	4

The foreign exchange differences arising on transactions settled in 2018 and 2017 related mainly to valuations of liquid asset accounts denominated in foreign currency.

10. Equity

At 31 December 2018 and 2017, 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 2018, ENDESA, S.A. had a 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 2018 and 2017. All the shares have the same voting and profit-sharing rights.

At 31 December 2018 and 2017, ENEL Group, through ENEL Iberia, S.L.U., held 70.101% of ENDESA, S.A.'s share capital (see Note 1). 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 2018, Euros 46 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 49 million at 31 December 2017).

10.3. Reserves

Details of the Company's reserves at 31 December 2018 and 2017 are as follows.

Millions of Euros

	Note	31 December 2018	31 December 2017
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)	(20)
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	1,445



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 period 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 share capital and no other sufficient reserves are available for such purpose.

At 31 December 2018 and 2017, 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 2018, Euros 296 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 314 million at 31 December 2017).

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 draw-down 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 corporate restructuring and its balance at 31 December 2018 and 2017 amounts to Euros 667 million, of which Euros 99 million and Euros 104 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

2018

At its meeting held on 20 November 2018, ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2018 profit of Euros 0.70 per share, which gave rise to a payment of Euros 741 million (see Note 3). This interim dividend was deducted from the Company's equity at 31 December 2018.

Millions of Euros

	Approval date	Euros per share, gross	Amount	Payment date
Interim dividend	20 November 2018	0.70	741	2 January 2019
Total dividend paid against 2018 profit		0.70	741	

2017

Approval was given at ENDESA, S.A.'s General Shareholders' Meeting of 23 April 2018 to pay shareholders a total dividend charged against 2017 profit for a gross amount of Euros 1.382 per share (Euros 1,463 million in total). The breakdown of these dividends is as follows:

Millions of Euros

	Approval date	Euros per share, gross	Amount	Payment date
Interim dividend	21 November 2017	0.70	741	2 January 2018
Final dividend	23 April 2018	0.682	722	2 July 2018
Total dividend paid against 2017 profit		1.382	1,463	





11. Provisions and contingencies

Details of current and non-current provisions in the accompanying statement of financial position at 31 December 2018 and 2017 are as follows.

Millions of Euros

	Note	31 December 2018	31 December 2017
Non-current provisions			
Non-current employee benefits:		71	73
Post-employment benefits	11.1	49 ¹	47
Other employee benefits		22	26
Provisions for workforce restructuring plans		150	190
Workforce reduction plans	11.2.1	2	7
Contracts suspension	11.2.2	148	183
Other provisions	11.3	60	60
TOTAL		281	323
Current provisions			
Provisions for workforce restructuring plans		51	45
Workforce reduction plans		18	15
Contracts suspension	11.2.2	33	30
Other provisions		9	9
TOTAL		60	54

¹ Includes post-employment benefits other than pension plans amounting to Euros 31 million.

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.

On the other hand, there are certain social benefit obligations to employees during their retirement that have not been externalised and are covered by the related internal provisions.

The amounts recognised in the accompanying statement of financial position at 31 December 2018 for post-employment benefits includes euros 49 million recognised in non-current provisions (euros 47 million at 31 December 2017).

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 2018 and 2017 are as follows.

Millions of Euros

	31 December 2018	31 December 2017
Present value of commitments and Obligations of Defined Benefit	108	111
Active employees	25	33
Former employees	51	57
Employees taking early retirement	32	21
Fair value of defined benefit plan assets	(59)	(64)
NET TOTAL	49	47

Movement in the actuarial liabilities assumed in relation to defined benefit scheme obligations at 31 December 2018 and 2017 was as follows:

Millions of Euros

	Note	2018	2017
Opening actuarial liability		111	116
Amounts charged to profit for the period		3	3
Personnel expenses		1	1
Financial expense	16.5	2	2
Actuarial gains and losses		—	(2)
Applications		(8)	(7)
Payments		(8)	(7)
Other		2	1
Closing actuarial liability		108	111

Changes in the market value of defined benefit plan assets at 31 December 2018 and 2017 were as follows:

Millions of Euros

	Note	2018	2017
Opening market value		64	68
Estimated benefit	16.5	1	1
Payments		(8)	(7)
Actuarial gains and losses		2	2
Closing market value		59	64
Opening liabilities/(assets) balance		47	48
Final liabilities/(assets) balance		49	47

Plan assets

The main characteristics of defined benefit plan assets as a percentage of total assets, at 31 December 2018 and 2017, was as follows:

	Percentage (%)	
	31 December 2018	31 December 2017
Shares	32	33
Fixed-income assets	55	60
Other (cash)	13	7
TOTAL	100	100

Actuarial assumptions

The following were the most significant actuarial assumptions considered in the calculations at 31 December 2018 and 2017:

	31 December 2018	31 December 2017
Mortality Tables	PERM / F2000	PERM / F2000
Technical interest rate	1.72%-1.75%	1.63%-1.67%
Expected return on plan assets	1.75%	1.65%
CPI ¹	2.00%	2.00%
Increase in healthcare costs	3.20%	3.20%

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 an "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 2018 and 2017.

Contributions by the Company to defined contribution plans amounted to Euros 13 million in 2018 (Euros 12 million in 2017) and are recognised under personnel expenses in the accompanying income statement.

11.2. Provisions for workforce restructuring plans

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 reduction plans involving employees who are currently in 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.

2 types of plan were in force at 31 December 2018 and 2017:

- Workforce reduction plans approved by the former companies before the corporate restructuring in 1999.
- Voluntary redundancy Plan approved in 2000. The Plan 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 Plan 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.

The total workforce considered in the valuation of the 2 plans mentioned above for 2018, is 28 persons, all of whom have now taken early retirement (34 persons, all of whom had taken early retirement in 2017).

The Company recognises the full expense of these plans 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 or loss.

Movements in this non-current provision at 31 December 2018 and 2017 are as follows:

Millions of Euros			
	Note	2018	2017
Opening balance		7	6
Amounts charged to profit for the period		4	—
Personnel expenses	16.2	4	—
Applications		(9)	1
Personnel income	16.2	—	(1)
Financial income	16.5	—	(1)
Transfers and other		(9)	3
Closing balance		2	7

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising under these workforce reduction plans at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Technical interest rate	0.78%	0.65%
CPI	2.00%	2.00%
Mortality Tables	PERM / F2000	PERM / F2000

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, finalised on 31 December 2018, 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 contract sus-

pension 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.

During the period 2013 – 2018, 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 signed employment contract suspension agreements.

At 31 December 2018, there were 283 employees with a suspended contract pursuant to these Agreements (278 employees at 31 December 2017).

Details at 31 December 2018 and 2017 of provisions for suspension of contracts are as follows:

	31 December 2018	31 December 2017
Provisions for long-term workforce restructuring plans		
Contract suspension	148	183
Provisions for short-term workforce restructuring plans		
Contract suspension	33	30
TOTAL	181	213

The provisions covered the total cost to be undertaken by the Company during the period for which, in accordance with the commitments undertaken up to 31 December 2018, the Company cannot prevent the employment contract from being suspended.

Movements in this non-current provision at 31 December 2018 and 2017 are as follows:

	Note	2018	2017
Opening balance		183	235
Amounts charged to profit for the period		1	2
Financial expense	16.5	1	2
Applications		(36)	(54)
Personnel income	16.2	(1)	(13)
Financial Income	16.5	(1)	(2)
Transfers and other		(34)	(39)
Closing balance		148	183





Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising from the contract suspension agreement at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Future increase in guarantee	2.00%	2.00%
Increase in other items	2.00%	2.00%
Discount rate	0.78%	0.65%
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 2018 and 2017 were as follows.

Millions of Euros

	2018	2017
Opening balance	60	47
Charges	10	24
Applications	(10)	(11)
Closing balance	60	60

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 Supreme Court issued several rulings on appeals submitted by ENDESA, S.A. against the obligation to finance the Social Bonus established in outdated Article 45.4 of Act 24/2013 of 26 December 2013, on the Electricity Sector (declared void due to incompatibility with Directive 2009/72/EC of the European Parliament and Commission, dated 13 July 2009, as set forth in Supreme Court rulings of 24 and 25 October 2016 and 2 November 2016). The Supreme Court recognised the right of ENDESA, S.A. to be compensated for the amounts paid as Social Bonuses, as per the article declared void, ruling that all the amounts paid for this concept plus corresponding legal interest. The authorities submitted applications for nullification of these rulings, but these were dismissed by the Supreme Court. The authorities submitted two appeals before the Constitutional Court against said dismissal, which are pending a resolution. ENDESA, S.A. submitted arguments before the Constitutional Court, requesting the following: (I) Inadmissibility of the final appeal because the authorities are not the grantors of fundamental rights (effective legal protection); (II) Inadmissibility of the final appeal because the authorities do not hold a legitimate interest in the nullification of Supreme Court rulings; (III) Moreover, the rulings by the Supreme Court have not violated the authorities' right to effective legal protection ensuring proper defence and to all the guarantees of the process.

→ In 2016, the Tax Agency informed of the start of proceedings on the consolidated tax group that ENDESA, S.A. is a member of and its subsidiaries regarding income tax expenses from 2011 to 2014 and value added tax from 2012 to 2014. In April 2018, the consolidated tax group signed notices of disagreement with the income tax expenses from 2011 to 2014 for Euros 44 million (Euros 38 million for the tax rate and Euros 6 million in interest) and notices of disagreement of the group of companies regarding the Value Added Tax amounting to Euros 15 million (Euros 13 million for the tax rate and Euros 2 million in interest). On 9 July 2018, the final settlement

agreements were issued, which were appealed on 27 July 2018 before the Central Economic and Administrative Court. The items under discussion with probability of possible loss amount to Euros 22 million (Euros 19 million for the tax rate and Euros 3 million in interest) and are the result of differing criteria on the deductibility of certain financial expenses during the audited period.

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 lawsuits.



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 2018 and 2017 are as follows.

Millions of Euros

	Note	Balance at 31 December 2017	Drawn	Amortisations	Transfers to current	Balance at 31 December 2018
Non-current debts		743	704	(1)	(55)	1,391
Bank borrowings		731	702	(1)	(45)	1,387
Finance lease payables		—	1	—	—	1
Derivatives	14	9	1	—	(9)	1
Other financial liabilities		3	—	—	(1)	2
Non-current debts to Group companies and associates	18.2	4,212	4,771	—	(1)	8,982
Debts to Group companies and associates		4,211	4,760	—	—	8,971
Derivatives	14	1	11	—	(1)	11
TOTAL		4,955	5,475	(1)	(56)	10,373

Millions of Euros

	Note	Balance at 31 December 2016	Drawn	Amortisations	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	18.2	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

Details of current debts and current debts to Group companies and associates in the accompanying statements of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Note	31 December 2018	31 December 2017
Current debts		284	277
Bank borrowings		50	19
Finance lease payables		—	1
Derivatives	14	9	32
Other financial liabilities ¹		225	225
Current debts to Group companies and associates	18.2	1,575	1,522
Debts to Group companies and associates		987	977
Derivatives	14	49	4
Other financial liabilities ²		539	541
TOTAL		1,859	1,799

¹ At 31 December 2018, 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 2017) (see Note 10.4).

² At 31 December 2018, 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 2017) (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 2018 and 2017, are as follows:

Millions of Euros

	Note	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Bank borrowings	12.2	1,387	50	731	19
Credit lines		208	4	6	6
European Investment Bank (EIB) loan		1,179	46	725	13
Debts to Group companies and associates	12.2 and 18.2	8,971	987	4,211	977
ENEL Finance International, N.V.		3,000	16	3,000	18
ENDESA Financiación Filiales, S.A.U.		5,971	34	1,196	40
International ENDESA, B.V.		—	905	15	889
Other debts		—	32	—	30

12.2. Main transactions

At 31 December 2018 and 2017, the main financial debt included in the balance of current and non-current “Bank borrowings” and “Debts to Group companies and associates” corresponds to the following transactions:





Millions of Euros

	Límite	31 December 2018		31 December 2017		Conditions	Maturity
		Non-current	Current	Non-current	Short-term		
Bank borrowings		1,387	50	731	19		
Credit lines		208	4	6	6	Floating interest rate	Until 31 March 2021
European Investment Bank (EIB) ¹		1,179	46	725	13	Floating interest rate	Until 29 May 2030
Debts to Group companies and associates		8,971	987	4,211	977		
Credit line with ENEL Finance International, N.V. ²	1,000	—	—	—	—	Margin of 55bp and fee applicable if not used of 18bp	30 June 2020
Credit line with ENEL Finance International, N.V. ³	1,500	—	—	—	—	Indexed to ENEL Euro Commercial Paper + 6bp	28 December 2018
Intercompany loan with ENEL Finance International, N.V. ⁴	3,000	3,000	16	3,000	18	Fixed interest rate 3.0%	29 October 2024
Current account with ENDESA Financiación Filiales, S.A.U. ⁵		5,971	34	1,196	40	Average interest rate of 2.0% (2.4% in 2017)	1 July 2021
Current account with ENDESA Financiación Filiales, S.A.U. ⁶		—	—	—	—	Average interest rate of 2.0% (2.0% in 2017)	1 October 2023
Credit line with International ENDESA, B.V.		—	—	15	—	Average interest rate of -0.2% (-0.2% in 2017)	21 March 2018
Credit line with International ENDESA, B.V.		—	905	—	889	Average interest rate of -0.3% (-0.3% in 2017)	21 December 2019
Other debts		—	32	—	30		
TOTAL		10,358	1,037	4,942	996		

¹ As part of the financial transaction signed with the European Investment Bank (EIB) in 2017, on 29 May 2018, EUR 500 million was drawn down. New financing taken out by ENDESA, S.A. on 21 December 2018 with the European Investment Bank (EIB) of Euros 335 million, which had yet to be disbursed at 31 December 2018.

² Committed and irrevocable credit line (see Note 18.2).

³ Uncommitted credit line (see Note 18.2). This credit line was not renewed on 28 December 2018.

⁴ At 31 December 2018, outstanding interest accrued and not paid amounted to Euros 16 million (Euros 18 million at 31 December 2017) (see Notes 12.1 and 18.2).

⁵ The Company has a current account financing contract with ENDESA Financiación Filiales, S.A.U. that is 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 cash draw downs that can be made between the parties. At 31 December 2018, outstanding interest accrued and not paid on this credit facility amounted to Euros 34 million (Euros 40 million at 31 December 2017) (see Notes 12.1 and 18.2).

⁶ The Company also had a current account in foreign currency with ENDESA Financiación Filiales, S.A.U. for a term of five years, currently maturing on 1 October 2023. 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 2018 and 2017, no amount had been drawn down.

Other debts

At 31 December 2018 and 2017, "Current debts to Group companies and associates" includes the loan granted by Nucleon, S.A. for Euros 24 million (see Notes 12.1 and 18.2).

Furthermore, at 31 December 2018, "Current debts to Group companies and associates" also includes the amount to pay to ENEL Iberia, S.L.U. corresponding to Value Added Tax (VAT) for the sum of Euros 8 million (Euros 5 million at 31 December 2017) (See Notes 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 2018 and 2017 are as follows.

Millions of Euros

31 December 2018				
	Note	Debts and payables	Financial liabilities held for trading	Total
Non-current debts		1,390	1	1,391
Bank borrowings		1,387	—	1,387
Finance lease payables		1	—	1
Derivatives	14	—	1	1
Other financial liabilities		2	—	2
Non-current debts to Group companies and associates	18.2	8,971	11	8,982
Debts to Group companies and associates		8,971	—	8,971
Derivatives	14	—	11	11
Total non-current		10,361	12	10,373
Current debts		275	9	284
Bank borrowings		50	—	50
Derivatives	14	—	9	9
Other financial liabilities		225	—	225
Current debts to Group companies and associates	18.2	1,526	49	1,575
Debts to Group companies and associates		987	—	987
Derivatives	14	—	49	49
Other financial liabilities		539	—	539
Trade and other payables		133	—	133
Total current		1,934	58	1,992
TOTAL		12,295	70	12,365
TOTAL FAIR VALUE		12,805	70	12,875

Millions of Euros

31 December 2017				
	Note	Debts and payables	Financial liabilities held for trading	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





Financial liabilities held for trading, financial liabilities at fair value through profit or 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 or 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 2018 and 2017, the fair value of the Company's non-current debts under "Loans and receivables" did not differ substantially from the carrying amount.

12.4. Classification by maturity

Details of non-current financial liabilities at 31 December 2018 and 2017 by maturity are as follows.

Millions of Euros

31 December 2018	Note	2020	2021	2022	2023	Subsequent years	Total
Non-current debts		120	215	135	136	785	1,391
Bank borrowings		118	215	135	135	784	1,387
Finance lease payables		1	—	—	—	—	1
Derivatives	14	1	—	—	—	—	1
Other financial liabilities		—	—	—	1	1	2
Non-current debts to Group companies and associates	18.2	10	5,972	—	—	3,000	8,982
Debts to Group companies and associates		—	5,971	—	—	3,000	8,971
Derivatives	14	10	1	—	—	—	11
TOTAL		130	6,187	135	136	3,785	10,373

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

In 2018, the average rate of interest was 2.0% on bank borrowings (2.4% in 2017) and 0.9% on debt to Group companies (1.3% in 2017).

12.5. Items recognised in the income statement and in equity

In 2018 and 2017, the applications made in the income statement and in net equity linked to non-current and current financial liabilities grouped by the different categories are as follows:

Millions of Euros

	2018		2017	
	Profit / (loss)	Equity	Profit / (loss)	Equity
Debts and payables	(125)	—	(141)	—
Financial liabilities at fair value through profit or loss	(130)	—	(107)	—
Financial liabilities held for trading	(130)	—	(107)	—
TOTAL	(255)	—	(248)	—

12.6. Financial liabilities at fair value through profit or loss

The variation in fair value of this type of financial liabilities in 2018 and 2017 is as follows:

Millions of Euros

	Fair value at 31 December 2017	Change in fair value of derivatives	Settlement of derivatives	Other movements	Fair value at 31 December 2018
Financial liabilities held for trading	46	130	(70)	(36)	70
Non-current	10	13	—	(11)	12
Current	36	117	(70)	(25)	58
TOTAL	46	130	(70)	(36)	70

Millions of Euros

	Fair value at 31 December 2016	Change in fair value of derivatives	Settlement of derivatives	Other movements	Fair value at 31 December 2017
Other financial liabilities at fair value through profit or 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





12.7. Financial stipulations

ENDESA, S.A.'s borrowings are 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 2018 and 2017, ENDESA, S.A. was not in breach of covenants or any other financial obligations that would require early repayment of its liabilities.

The most significant financial stipulations contained in the Company's borrowings are as follows:

Millions of Euros

Clauses	Transactions	Covenants	Outstanding debt	
			31 December 2018	31 December 2017
Related to credit ratings	Financial transactions with the European Investment Bank (EIB)	Additional or renegotiated guarantees in the event of credit rating downgrades	1,100	600
Relating to change of control.	Loans and other agreements arranged with financial entities and ENEL Finance International, N.V.	May be repaid early in the event of a change of control at ENDESA, S.A.	4,225 ¹	3,738 ¹
Related to asset transfers	Debts	Restrictions arise if a percentage of between 7 and 10% of ENDESA's consolidated assets is exceeded ²	1,225	738

¹ The amount signed by ENDESA was Euros 4,560 million at 2018 December (Euros 5,738 million at 31 December 2017).

² 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 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 2018 and 2017.

12.8. Other matters

At 31 December 2018 and 2017, ENDESA, S.A. had undrawn credit lines available totalling Euros 2,796 million and Euros 3,096 million, respectively, of which Euros 1,000 million correspond to a committed and irrevocable credit line 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, control and supervision systems, all of which are implemented throughout the Group of which it is the parent company.

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 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.
 - > 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 (CAC) 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. The Company had no interest rate hedge contracts at 31 December 2018.

ENDESA, S.A.'s interest rate risk structure, taking into account the derivatives arranged, at 31 December 2018 and 2017, is as follows.

Millions of Euros

	Net position	
	31 December 2018	31 December 2017
Fixed interest rate	3,001	3,001
Floating interest rate	8,324	2,843
TOTAL	11,325	5,844

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 2018 and 2017, 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

	Basis points change	31 December 2018		31 December 2017	
		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	11	—	10	—
Interest rate reduction	-25	(11)	—	(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 2018 and 2017, 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 2018 and 2017, 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.





As of 31 December 2018, ENDESA, S.A.'s liquidity rose to Euros 2,809 million (Euros 3,126 million at 31 December 2017) as detailed below:

Millions of Euros

	Liquidity	
	31 December 2018	31 December 2017
Cash and cash equivalents	13	30
Unconditional Available in Credit Lines ¹	2,796	3,096
TOTAL	2,809	3,126

¹ At 31 December 2018 and 2017, Euros 1,000 million correspond to the available committed and irrevocable credit line arranged with ENEL Finance International, N.V. (see Note 12.2).

The amount of these credit lines, 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

As regards credit risk in relation to financial instruments, the risk policies followed by ENDESA, S.A. consist in placing its cash surpluses as set forth in the risk management policy, which requires top-tier counterparties in the markets it operates in.

At 31 December 2018, the greatest exposure to cash positions held with a counterparty was Euros 9 million of a total of Euros 13 million, this counterparty has a rating of A- (Euros 12 million of a total of Euros 30 million at 31 December 2017, this counterparty has a rating of A-).

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 2018 and 2017 are as follows:

Millions of Euros

	31 December 2018			
	Assets <small>(Note 8)</small>		Liabilities <small>(Note 12.1)</small>	
	Current	Non-Current	Current	Non-Current
Derivatives not designated as hedging instruments	57	11	57	12
Foreign currency	57	11	57	12
Other derivatives	1	—	1	—
TOTAL	58	11	58	12

Millions of Euros

	31 December 2017			
	Assets <small>(Note 8)</small>		Liabilities <small>(Note 12.1)</small>	
	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





Fair value hedges

In 2018 and 2017, fair value hedges did not have a significant impact on the income statement.

At 31 December 2018 and 2017, the Company had no fair value hedging derivatives.

Derivatives not designated as hedging instruments

Breakdown by maturity of the notional or contractual amounts of derivatives not designated in books as hedging instruments contracted by the Company, and their fair value at 31 December 2018 and 2017, are as follows:

Millions of Euros

	31 December 2018							
	Fair value	Notional value						Total
		2019	2020	2021	2022	2023	Subsequent years	
Commodity trades:	(1)	2,001	788	36	—	—	—	2,825
Foreign currency:	(1)	2,001	788	36	—	—	—	2,825
Futures	(1)	1,977	779	36	—	—	—	2,792
Other	-	24	9	—	—	—	—	33

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
Other	—	18	8	5	—	—	—	31

Other derivatives

In 2018 and 2017, an expense of less than Euros 1 million was recognised in the income statement for other derivatives.

15. Taxation

In 2018 and 2017, the Company filed consolidated tax returns as required under Law 27/2014 of 27 November 2014 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 2018 and 2017, the credit with ENEL Iberia, S.L.U. for income tax expense amounted to Euros 78 million and Euros 58 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 2018, the amount of income tax expense resulted in income of Euros 50 million in the income statement (Euros 4 million income in 2017) and no expenses or income

directly attributable to equity (Euros 1 million expenses in 2017).

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 2018 and 2017 is as follows.

Millions of Euros

2018	Income statement			Income and expenses recognised directly in equity			Reserves		
	Increases	Decreases	Total	Increases	Decreases	Total	Increases	Decreases	Total
Accounting profit after income tax			1,511			—			—
Income tax for the year			(50)			—			—
Accounting profit before tax			1,461			—			—
Permanent differences	37	(1,692)	(1,655)	—	—	—	—	—	—
Temporary differences	14	(68)	(54)	—	—	—	—	—	—
Arising in the year	14	—	14	—	—	—	—	—	—
Arising in prior years	—	(68)	(68)	—	—	—	—	—	—
Tax loss			(248)			—			—





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)			—			—

2018

Permanent difference increases in 2018 originated from provisions for liabilities amounting to Euros 15 million, differences in valuation rules amounting to Euros 15 million, donations and gifts amounting to Euros 4 million and other non-deductible expenses amounting to Euros 3 million. The decreases correspond mainly to the application of the exemption to avoid double taxation on foreign dividends for the sum of Euros 1,692 million (see Note 16.1).

The increases due to temporary differences correspond to long-term employee benefits and workforce restructuring plans for Euros 14 million. The decreases relate mainly to the application of provisions for non-current employee benefits and workforce restructuring plans for Euros 49 million, application of the provision for liabilities amounting to Euros 18 million, and recovery of the adjustments made for the limitation on tax-deductible depreciation (Law 16/2012 of 27 December 2012) for Euros 1 million.

2017

Increases due to permanent differences in 2017 relate primarily to donations and gifts totalling Euros 4 million and the provision for liabilities totalling 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 2012) for Euros 1 million.

15.2. Reconciliation between tax payable and income tax expense

The reconciliation between tax payable and income tax expense in 2018 and 2017 is as follows.

Millions of Euros

	2018	2017
Tax loss	(248)	(54)
Income statement	(248)	(54)
Total taxable income	(248)	(54)
Tax rate	25.0	25.0
Tax payable	(62)	(13)
Application of tax credits and rebates	(2)	(1)
Recovery of tax credit	(6)	(4)
Effective tax	(70)	(18)
Change in deductions	6	1
Net tax effect, due to temporary differences	13	12
Prior years' adjustments and other	1	2
Income tax for the year	(50)	(3)
Income tax in income statement	(50)	(4)
Income tax in equity	—	1

Prior years' adjustments reflect the adjustment for the effect of the income tax expense settlement of the preceding year.

were applied to contributions to entities regulated by Law 49/2002, of 23 December 2002.

Similarly, prior years' deductions amounting to Euros 6 million (Euros 4 million in 2017) were applied during 2018.

15.3. Deductions and rebates

In 2018, the Company applied credits and rebates for a total of Euros 2 million corresponding mainly to credits for contributions to entities regulated by Law 49/2002 of 23 December amounting to Euros 2 million (Euros 1 million in 2017). In 2018, no reductions have been applied for research and development activities (Euros 1 million in 2017). Of the deductions recognised in 2018, Euros 2 million

15.4. Reconciliation between accounting profit and income tax expense

In 2018 and 2017, the reconciliation of accounting profit/(loss) to income tax expense is as follows.

Millions of Euros

	2018		
	Income statement	Income and expenses directly recognised in equity	Recognised income and expenses
Accounting profit before tax	1,461	—	1,461
Permanent differences	(1,655)	—	(1,655)
Total adjusted profit/(loss)	(194)	—	(194)
Tax rate of 25%	(49)	—	(49)
Deductions	(2)	—	(2)
For gifts to non-profit entities and patronage	(2)	—	(2)
Prior years' adjustments and other	1	—	1
Total income tax expense	(50)	—	(50)





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)

15.5. Details of the income tax expense

The breakdown of the income tax expense for 2018 and 2017 is as follows:

Millions of Euros

	2018				
	Current tax	Change in deferred tax			Total
		Assets		Liabilities	
		Temporary differences	Other credits	Temporary differences	
Recognition in income statement, of which:	(70)	13	6	—	(51)
Continuing operations	(70)	13	6	—	(51)
Recognition in equity, of which:	—	—	—	—	—
From Actuarial Gains and Losses and other Adjustments	—	—	—	—	—
Prior years' adjustments and other	6	(5)	—	—	1
Total	(64)	8	6	—	(50)

Millions of Euros

	2017				Total
	Current tax	Change in deferred tax			
		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)

15.6. Deferred tax assets

At 31 December 2018 and 2017, deferred taxes assets recognised in the statement of financial position is as follows:

Millions of Euros

Deferred tax assets from	31 December 2018	31 December 2017
Provisions for long-term employee benefits and workforce restructuring plans	88	92
Other provisions	29	34
Unused tax credits	—	6
Total	117	132

The movements and breakdown of deferred tax assets on the accompanying statement of financial position in 2018 and 2017 are as follows:

Millions of Euros

	2018			2017		
	Temporary differences	Deductions pending	Total	Temporary differences	Deductions pending	Total
Opening balance	126	6	132	140	6	146
Temporary differences originating in the year	4	—	4	9	3	12
Application of temporary differences originating in prior years	(17)	(6)	(23)	(21)	(3)	(24)
Changes taken to equity	—	—	—	(1)	—	(1)
Prior years' adjustments and other	4	—	4	(1)	—	(1)
Closing balance	117	—	117	126	6	132

The Company has no applicable tax loss carryforwards.

At 31 December 2018, the Company held deferred tax assets in the amount of Euros 117 million, most of which is expected to be recovered within a 10-year period. For those expected to be recovered over a longer period, the Company's tax group has deferred tax liabilities with the same tax authority and for a sufficient amount, which is expected to be reversed in the same tax year as the aforementioned deferred tax assets (Euros 132 million at 31 December 2017).

At 31 December 2018, the Company does not have tax credits pending application in future years, corresponding to the deductions not applied for in previous years (at 31 December 2017, they corresponded to the years 2014 to 2017).

At 31 December 2017, the detail of these deductions and the year until which they could be used, is as follows:

Millions of Euros

Year	31 December 2017
2030	—
2031	1
2032	2
2033	1
2034	1
2035	1
TOTAL	6

The information relating to the deductions applied in 2018 and 2017 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 2018 and 2017, deferred taxes liabilities recognised in the statement of financial position is as follows:

Millions of Euros

	At 31 December 2018	At 31 December 2017
Deferred tax liabilities from		
Other	34	34
Total	34	34

During 2018 and 2017, the movements of "Deferred tax liabilities" on the accompanying statement of financial position were not significant.

15.8. Balances with public administrations

The balances receivable that the Company has with public administrations at 31 December 2018 for Euros 4 million (less than Euros 1 million at 31 December 2017) correspond to the Value Added Tax (VAT).

The balances payable that the Company has with public administrations at 31 December 2018 and 2017, are the following:

Millions of Euros

	31 December 2018	31 December 2017
Spanish personal income tax (IRPF) payable	4	3
Social Security contributions payable	2	2
TOTAL LIABILITIES	6	5

15.9. Balances with Group companies

At 31 December 2018 and 2017, the Company recognised an income tax expense credit with ENEL Iberia, S.L.U., for Euros 70 million and Euros 18 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 2018	31 December 2017
Tax payable	(62)	(13)
Deductions	(8)	(4)
Withholdings and payments on account	—	(1)
TOTAL	(70)	(18)

At 31 December 2018, a corporate income tax credit exists with ENEL Iberia, S.L.U., amounting to Euros 8 million (Euros 40 million at 31 December 2017) (see Notes 8.1.2, 12.2 and 18.2).

At 31 December 2018, the debt with ENEL Iberia, S.L.U. for Value Added Tax (VAT) registered under "Current debts to Group companies and associates" of the accompanying statement of financial position amounts to Euros 8 million (Euros 5 million at 31 December 2017) (See Notes 12.2 and 18.2).

15.10. Years open to tax inspection

In 2018, the Tax Agency concluded the verification and general investigation process initiated in 2016 on income tax expense for the years 2011 to 2014 and the value added tax for the years 2012 to 2014, which, in both cases, involved the consolidated group, where the Company paid as a subsidiary. The Tax Agency also concluded processes on withholdings for the years 2011 to 2014 and partially

for the years 2015 to 2017. As a result of these investigations the Company has entered the amount appearing in signed agreement statements, which have been paid in the amount of Euros 3 million. With regard to the disputed claims, pleadings have been submitted to the Technical Office, and settlement agreements were received on 9 July 2018, regarding which the Company has filed an appeal before the Central Economic-Administrative Court disputing most of the issues subject to adjustment. Any resulting liabilities arising as a result of the new administrative procedures that will be initiated against the cited settlement agreements should have no significant effect on the Company's Consolidated Financial Statement.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At year-end 2018, the Company has its books open to inspection for 2006, 2015 and onwards regarding income tax and for 2015 and onwards in respect of all other applicable taxes.

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 op-

erations, 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 27/2014 of 27 November 2014 on income tax

The Notes to the Company's financial statements for 1999 to 2017 include the information required under article 86 of Law 27/2014 of 27 November 2014 regarding the corporate restructuring operations carried out in prior years.



16. Profit/(loss)

The Company's main income and expense for 2018 and 2017 are detailed below:

16.1. Revenue

Details of revenue in the accompanying income statements for 2018 and 2017 by category and geographical markets are as follows.

Millions of Euros

2018	Note	Spain	Other EU	Latin America	Total
Rendering of services	18.1	274	3	—	277
Dividend income from Group companies and associates	8.1.1 and 18.1	1,692	—	—	1,692
TOTAL		1,966	3	—	1,969

Millions of Euros

2017	Note	Spain	Other EU	Latin America	Total
Rendering of services	18.1	258	2	—	260
Dividend income from Group companies and associates	8.1.1 and 18.1	1,503	—	—	1,503
TOTAL		1,761	2	—	1,763

Dividend income from Group companies and associates heading includes dividends distributed by the Group companies detailed (see Notes 8.1.1 and 18.1).

16.2. Personnel expenses

In 2018 and 2017, details of “Personnel expenses” in the accompanying income statement are as follows:

Millions of Euros

	Note	2018	2017
Wages and salaries		112	119
Termination benefits		7	1
Other employee benefits		34	31
Social security		18	19
Other		16	12
Provisions		6	(6)
Non-current employee benefits	11.1	3	8
Obligations for workforce reduction plans	11.2.1	4	(1)
Obligations for contracts suspension	11.2.2	(1)	(13)
TOTAL		159	145

16.3. Other operating expenses

Details of other operating expenses in the accompanying income statement for 2018 and 2017 are as follows:

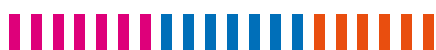
Millions of Euros

	Note	2018	2017
External services		112	113
Leases and levies	7.1	10	10
Other repairs and upkeep costs		1	9
Independent professional services		20	20
Banking and similar services		1	2
Advertising and public relations		21	18
Other external services		59	54
Taxes other than income tax		3	1
Other administrative expenses		99	111
TOTAL		214	225

In 2018 and 2017, this heading includes the expense recorded for the so-called Social Bonus, amounting to Euros 81 and Euros 75 million, respectively.

In 2018, “Leases and levies” includes expenses relating to contracts of this type arranged with Group companies and associates for the amount of Euros 9 million (Euros 9 million in 2017) (see Notes 7.1 and 18.1).

In 2018, “Other external services” also includes other services received from Group companies and associates for the amount of Euros 41 million (Euros 40 million in 2017) (see Note 18.1) for repercussion of structure, auxiliary services and other general services expenses.





16.4. Other gains/losses

In 2017, in compliance with Order ETU/929/2017, dated 28 September 2017 and Order ETU/1288/2017, dated 22 December 2017, resulting in the execution of several rulings in this regard, the Company recognised the deposit of amounts corresponding to the Social Bonus of years 2014, 2015 and 2016 and entered these its income statement:

- The amount of Euros 222 million under “Other income” (see Notes 11.3 and 16.3).
- The amount of Euros 15 million under “Financial income” derived from the financial effect of legal interest (see Notes 11.3 and 16.5).

16.5. Financial income and expense

In 2018 and 2017, details of financial income and expense in the accompanying income statement are as follows:

Millions of Euros

	Note	2018	2017
Financial income		15	28
From marketable securities and other non-current loans		15	28
Interest from loans to Group companies and associates	18.1	4	6
Interest from loans to third parties		11	22
Loans and credits		8	3
Expected return on assets related with defined benefit plans	11.1	1	1
Workforce restructuring plans	11.2	1	3
Workforce reduction plans	11.2.1	—	1
Contract suspension	11.2.2	1	2
Other financial income		1	15
Financial expense		(128)	(145)
Interest on borrowings from Group companies and associates	18.1	(119)	(132)
Interest on debts to third parties		(6)	(9)
Provision adjustments		(3)	(4)
Non-current employee benefit obligations		(2)	(2)
Post-employment benefits	11.1	(2)	(2)
Other employee benefits		—	—
Workforce reduction plans	11.2.1	—	—
Contract suspension	11.2.2	(1)	(2)

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

17.1. Guarantees to third parties and other contingent liabilities

At 31 December 2018 and 2017, ENDESA, S.A. provided the following guarantees and collateral (see Note 18.2):

Millions of Euros

COMPANY	Purpose of guarantee	31 December 2018	31 December 2017
International ENDESA, B.V.	Financing secured and financial derivatives	932	916
ENDESA Generación, S.A.U.	Long-term gas contracts	52	50
ENDESA Energía, S.A.U.	Gas contracts	20	—
ENDESA Generación, S.A.U.	Elecgas, S.A. electricity production ("Tolling")	407	424
Group companies	Workforce Restructuring Plans	42	61
ENDESA Generación, S.A.U.	Girabolhos hydroelectric power plant project (Portugal)	2	2
Other group companies	Other commitments	1,662	1,365
ENDESA Energía, S.A.U.		745	706
ENEL Green Power España, S.L.U. (EGPE)		318	206
ENDESA Generación, S.A.U.		173	149
ENDESA Energía XXI, S.L.U.		132	132
ENDESA Distribución Eléctrica, S.L.U.		100	86
Gas y Electricidad Generación, S.A.U.		34	33
Empresa Carbonífera del Sur, S.A.U.		22	19
Unión Eléctrica de Canarias Generación, S.A.U.		23	17
Other		115	17
TOTAL		3,117	2,818

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 (LNG) 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 120 million at 31 December 2018 and Euros 114 million at 31 December 2017) to comply with this contract (see Note 18.2).

18. Related-party transactions

During 2018 and 2017, 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 2018, the amount of transactions carried out with other related parties of certain members of the Board of Directors, does not exceed Euros 9 million combined (Euros 8 million in 2017). 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 2018 and 2017 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 2018 and 2017:

Millions of Euros

	Note	2018					Total
		Significant shareholders	Directors and executives (Note 18.3)	Group companies	Associates	Other related parties	
Purchase of intangible assets	5	—	—	20	—	—	20
Rendering of services	16.1	2	—	275	—	—	277
Other income		—	—	8	—	—	8
Services received	16.3	(1)	—	(40)	—	(9)	(50)
Dividends received	8.1.1 and 16.1	—	—	1,692	—	—	1,692
Financial income	16.5	—	—	4	—	—	4
Financial expense	16.5	—	—	(119)	—	—	(119)
Leases	7.1 and 16.3	—	—	(9)	—	—	(9)
Dividends and other distributed benefits	3	1,025	—	—	—	—	1,025
Exchange gains/(losses)		—	—	(18)	—	—	(18)
Change in fair value of financial instruments		—	—	(59)	—	—	(59)





Millions of Euros

	Note	2017					Total
		Significant shareholders	Directors and executives (Note 18.3)	Group companies	Associates	Other related parties	
Purchase of intangible assets	5	—	—	26	—	—	26
Rendering of services	16.1	2	—	258	—	—	260
Other income		—	—	15	—	—	15
Services received	16.3	(5)	—	(35)	—	(8)	(48)
Dividends received	8.1.1 and 16.1	—	—	1,503	—	—	1,503
Financial Income	16.5	—	—	6	—	—	6
Financial expense	16.5	—	—	(132)	—	—	(132)
Leases	7.1 and 16.3	—	—	(9)	—	—	(9)
Dividends and other distributed benefits	3	989	—	—	—	—	989
Exchange gains/(losses)		—	—	38	—	—	38
Change in fair value of financial instruments		—	—	44	—	—	44

18.2. Balances with related parties

At 31 December 2018 and 2017, balances with related parties recognised in the statement of financial position are as follows.

Millions of Euros

	Note	31 December 2018					Total
		Significant shareholders	Directors and executives (Note 18.3)	Group companies	Associates	Other related parties	
Non-current financial investments	8	—	—	18,894	—	—	18,894
Equity instruments		—	—	18,893	—	—	18,893
Derivatives	14	—	—	1	—	—	1
Trade and other receivables		3	—	89	—	—	92
Current financial investments	8	78	—	1,377	—	—	1,455
Loans to companies		78	—	—	—	—	78
Derivatives	14	—	—	9	—	—	9
Other financial assets		—	—	1,368	—	—	1,368
Non-current debts	12	—	—	(8,982)	—	—	(8,982)
Non-current debts to Group companies and associates		—	—	(8,971)	—	—	(8,971)
Derivatives	14	—	—	(11)	—	—	(11)
Current debts	12	(528)	—	(1,023)	(24)	—	(1,575)
Current debts to Group companies and associates		(8)	—	(955)	(24)	—	(987)
Derivatives	14	—	—	(49)	—	—	(49)
Other financial liabilities		(520)	—	(19)	—	—	(539)
Trade and other payables		(3)	—	(33)	—	(1)	(37)
Guarantees received	17.2	120	—	—	—	—	120
Guarantees provided	17.1 and 18.3	—	7	3,117	—	—	3,124
Financing agreements	18.3	—	1	—	—	—	1

	Note	31 December 2017					Total
		Significant shareholders	Directors and executives (Note 18.3)	Group companies	Associates	Other related parties	
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	17.1 and 18.3	—	7	2,818	—	—	2,825
Financing agreements	18.3	—	1	—	—	—	1

At 31 December 2018 and 2017, ENDESA maintained a committed and irrevocable inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000 million and which at that date had not been drawn down in any amount. In addition, at 31 December 2017, the Company maintained an uncommitted credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,500 million and which at that date had not been drawn down in any amount. This latter credit line was cancelled at maturity on 28 December 2018 (see Note 12.2).

18.3. Information on the Board of Directors and senior executives

18.3.1. 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 2018 and 2017, the monthly fixed salary for each Director was Euros 15.6 thousand, gross.

- 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 2018 and 2017.

- 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 2018 and 2017, are as follows:

Thousands of Euros

	2018		2017	
	Salary	Fixed remuneration	Salary	Fixed remuneration
Borja Prado Eulate	1,132	188	1,132	188
Francesco Starace	—	—	—	—
José Bogas Gálvez	740	—	737	—
Alejandro Echevarría Busquet	—	188	—	188
Alberto de Paoli	—	—	—	—
Helena Revoredo Delvecchio	—	188	—	188
Miquel Roca Junyent	—	225	—	225
Enrico Viale	—	—	—	—
Ignacio Garralda Ruiz de Velasco	—	200	—	200
Francisco de Lacerda	—	188	—	188
Maria Patrizia Grieco ¹	—	188	—	128
TOTAL	1,872	1,365	1,869	1,305

¹ Joined in April 2017.

Variable remuneration

The variable remuneration accrued in 2018 and 2017 by the Chairman and CEO, for performing their executive tasks, are those itemised below:

Thousands of Euros

	2018		2017	
	Current	Non-current	Current	Non-current
Borja Prado Eulate	835	904	783	1,023
José Bogas Gálvez	530	748	497	846
TOTAL	1,365	1,652	1,280	1,869

Attendance fees

Per diems for attendance at each meeting of the Board of Directors and of its Committees in 2018 and 2017 are as follows:

Thousands of Euros

	2018		2017	
	ENDESA, S.A.	Other companies	ENDESA, S.A.	Other companies
Borja Prado Eulate	19	—	18	—
Francesco Starace	—	—	—	—
José Bogas Gálvez	—	—	—	—
Alejandro Echevarría Busquet	48	—	37	—
Alberto de Paoli	—	—	—	—
Helena Revoredo Delvecchio	34	—	37	—
Miquel Roca Junyent	48	—	45	—
Enrico Viale	—	—	—	—
Ignacio Garralda Ruiz de Velasco	50	—	46	—
Francisco de Lacerda	50	—	46	—
Maria Patrizia Grieco	19	—	13	—
TOTAL	268	—	242	—

¹ Joined in April 2017.





Other components

The Executive Directors, as well as the remaining senior managers, 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 other social benefits.

In 2018, this totalled Euros 84 thousand (Euros 86 thousand in 2017).

Advances and loans

At 31 December 2018 and 2017, 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 plans: contributions

During 2018, the contribution to funds and pension plans of Executive Directors totalled Euros 626 thousand (Euros 600 thousand in 2017).

Pension funds and plans: obligations assumed

At 31 December 2018, Executive Directors hold accumulated fund and pension plan rights for the amount of Euros 14,042 thousand (Euros 12,815 thousand in 2017).

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 2018, the premium totalled Euros 267 thousand (Euros 249 thousand in 2017).

Guarantees provided by the Company to Executive Directors

At 31 December 2018, as regards remuneration, the Company had guarantees on behalf of the Chief Executive Officer amounting to Euros 6,722 thousand to cover early retirement entitlements (EUR 6,890 thousand at 31 December 2017) (see Note 18.2).

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 2018
	Position ¹
Alberto Fernández Torres	General Manager - Communication
Álvaro Luis Quiralte Abelló ²	General Manager - Energy Management
J. María Moreno Mellado ³	General Manager - Energy Management
Andrea Lo Faso	General Manager - People 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 ⁴	General Manager - Nuclear Power
Gonzalo Carbó de Haya ⁵	General Manager - Nuclear Power
Luca Minzolini	General Manager - Audit
María Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi ⁶	General Manager - Administration, Finance and Control
Luca Passa ⁷	General Manager - Administration, Finance and Control

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

² Left on 31 October 2018.

³ Joined on 1 November 2018.

⁴ Left on 31 October 2018.

⁵ Joined on 1 November 2018.

⁶ Left on 30 April 2018.

⁷ Joined on 1 May 2018.

Name	Senior executives in 2017
	Position ¹
Alberto Fernández Torres	General Manager - Communication
Álvaro Luis Quiralte Abelló	General Manager - Energy Management
Andrea Lo Faso	General Manager - Human Resources and Organisation
Francisco de Borja Acha Besga	General Secretary to 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 management in CNMV Circular 5/2013, of 12 June 2013.





Remuneration of senior management

Details of the remuneration in 2018 and 2017 of senior management members who are not, in turn, Executive Directors has been as follows:

Thousands of Euros

	2018	2017
Fixed remuneration	4,086	3,831
Variable remuneration	4,523	4,370
Other	1,327	374
TOTAL	9,936	8,575

Thousands of Euros

	2018	2017
Advances and Credits Granted	217	391
Pension funds and plans: contributions	722	749
Pension funds and plans: obligations assumed	12,078	11,973
Life and accident insurance premiums	167	191

Guarantees provided by the Company to senior management personnel

At 31 December 2018 and 2017, in terms of remuneration, the Company had not issued any guarantees to senior managers who are not also 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 managers of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee (ARC) 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 2018 and 2017, 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 2018				
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.	0,00406543	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
M.ª Patrizia Grieco	00811720580	ENEL, 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
Ignacio Garralda	00811720580	ENEL, S.p.A.	0,00027540	—

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
M.ª Patrizia Grieco	811720580	ENEL, 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	—

In accordance with Article 229 of the Corporate Enterprises Act, conflicts of interest involving members of the Board of



Directors shall be reported 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 2018, the Executive Directors did not participate in the related items on the agenda of the corresponding 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 2018, the Proprietary directors did not participate in the related items on the agenda of the corresponding Board of Directors meeting.
- Helena Revoredo Delvecchio is Chairwoman of Prosegur Compañías 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 2018, 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, Ms. Helena Revoredo Delvecchio, pursuant to the legislation applicable to conflicts of interests.

Distribution by gender: At 31 December 2018, the Board of Directors of ENDESA, S.A. was composed of 11 directors, 2 of which are women. At 31 December 2017, there were 11 Directors, 2 of which were women.

In 2018 and 2017 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 insures both the Company's directors and employees with management responsibilities.

In 2018, this premium totalled Euros 327 thousand (Euros 80 thousand in 2017).

18.3.5. Share-based payment plans 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: 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 2016-2018. The Company also submitted the long-term 2017-2019 remuneration scheme for approval to the General Shareholders' Meeting, held on 26 April 2017, and the long-term 2018-2020 remuneration scheme to the General Shareholders' Meeting held on 23 April 2018.

These schemes are linked, among other indicators, to share price performance and are directed at the Chairman, the CEO and ENDESA directors 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: impact of all dividends paid in the period and reinvested in shares at the date each was subject to a discount.
- b) The Return on average capital employed (ROACE)¹, objective, defined as ENDESA’s accumulated ROACE in the accrual period, represented by the relationship between Ordinary Profit from Operations (Ordinary EBIT)² and average net capital invested (Average NCI)³ accumulated during the period.

- c) The long-term remuneration scheme 2018-2020 included a CO₂ emission reduction target. This indicator measures ENDESA’s CO₂ emissions in Spain and Portugal, understood as the existing ratio between absolute CO₂ emissions due to ENDESA electricity generation and ENDESA net total production for that year.

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 (ARC) 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 2018 for all Directors totalled Euros 5 million (Euros 5 million in 2017).

¹ Return on average capital employed (ROACE) (%) = Ordinary Profit from Operations (Ordinary EBIT) / average Net Capital Invested (Average NCI).

² Ordinary Profit from Operations (Ordinary EBIT) (Euros Million) = Profit from Operations (EBIT) adjusted of extraordinary effects not budgeted.

³ Average Net Capital Invested (Average NCI) (Euros Million) = ((Equity + Net Financial Debt – Cash and cash equivalents)_n + (Equity + Net Financial Debt – Cash and other cash equivalents)_{n-1}) / 2



19. Other information

19.1. Personnel

The Company's average headcount in 2018 and 2017, detailed by category and gender, was as follows:

Number of employees

	2018		Total	2017		Total
	Male	Female		Male	Female	
Executives	102	25	127	109	26	135
Graduates	425	417	842	443	423	866
Middle management and manual workers	109	217	326	138	266	404
TOTAL EMPLOYEES	636	659	1,295	690	715	1,405

At 31 December 2018 and 2017, the breakdown of the headcount by category and gender is as follows.

Number of employees

	31 December 2018		Total	31 December 2017		Total
	Male	Female		Male	Female	
Executives	102	26	128	103	25	128
Graduates	423	417	840	439	421	860
Middle management and manual workers	108	211	319	123	249	372
TOTAL EMPLOYEES	633	654	1,287	665	695	1,360

The average persons employed in 2018 and 2017 with an incapacity greater than or equal to 33%, per category and gender, was as follows:

Number of employees

	2018		Total	2017		Total
	Male	Female		Male	Female	
Graduates	3	3	6	4	3	7
Middle management and manual workers	5	4	9	5	5	10
TOTAL EMPLOYEES	8	7	15	9	8	17

19.2. Audit fees

Details of fees for the services provided in 2018 and 2017 by the auditors of the financial statements of the Company and the consolidated financial statements of ENDESA, S.A. and its subsidiaries are as follows.

Thousands of Euros

	2018	2017
	Ernst & Young, S.L.	Ernst & Young, S.L.
Audit of the Financial Statements	1,128	1,497
Audits other than of the financial statements and other audit-related services	1,557	1,031
TOTAL	2,685	2,528

The figures reported in the table above include all of the fees accrued for the services rendered during the years ended 2018 and 2017, irrespective of when they were actually billed.

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

Pursuant to Law 15, 2010, of 5 July 2010, details of the degree of compliance by the Company with the statutory limits on payment to suppliers in 2018 and 2017 are as follows:

Number of days

	2018	2017
Average payment period for suppliers	43	51
Ratio of transactions paid	44	54
Ratio of transactions pending payment	32	32

Thousands of Euros

	2018	2017
Total payments made	183,448	107,193
Total payments pending	18,824	14,913

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.

Moreover, in certain assets, the possible loss of profits that could result from outages at the plants is covered.

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





20. Environmental information

Operating costs associated with environmental activities were not registered in 2018 (Euros 7 million in 2017).

At 31 December 2018 and 2017, the Company did not have any environmental assets and it did not acquire or dispose of any environmental assets or receive any grants for that purpose during 2018 and 2017.

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

After an important number of meetings of the “Negotiating Committee of the V Collective Agreement of ENDESA,” which began in October 2017 and that have been developed throughout 2018, given the impossibility of reaching an agreement, the Company’s Management informed the workers and its representatives that, effective January 1, 2019, the validity of the “IV Framework Collective Agreement of ENDESA” as well as the so-called “Framework Agreement of Guarantees” and “Agreement on Voluntary Measures of Suspension or Termination of Labor Contracts for the 2013-2018 Period,” should be considered finished, applying since that date the general labor regulations, as well as the jurisprudential criteria established in the matter.

Notwithstanding the fact that in February 2019 negotiations have been resumed in the aforementioned “Ne-

gotiating Committee of the V Collective Agreement of ENDESA,” the different interpretation of ENDESA and the union representation of the workers on the effects of the termination of the application of the “IV Framework Collective Agreement of ENDESA,” particularly regarding the social benefits of the passive personnel, has determined the presentation by the unions with representation in the company, of a collective dispute demand.

At the date of preparation of these Financial Statements, the resolution of said collective dispute in the first instance by the Social Division of the National Court is pending.

Except for what is mentioned in the previous paragraphs, no other significant events took place between 31 December 2018 and the date of authorisation for issue of the financial statements that have not been reflected therein.

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 princi-

ples 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, 2018, as provided herein, were drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 25, 2019** 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, 25 February 2019

Management Report

for the year ended 31 December 2018

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



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 2018 amounted to euros 1,969 million, of which euros 1,692 million correspond to income from dividends from Group companies and associates, and euros 277 million to income for the provision of services to independent companies.

The details of the ENDESA's income from dividends in 2018 are as follows.

Millions of Euros

Company	Dividend
ENDESA Generación, S.A.U.	655
ENDESA Red, S.A.U.	846
ENDESA Financiación Filiales, S.A.U.	191
TOTAL	1,692

In 2018, operating income amounted to Euros 1,980 million, while operating expenses totalled Euros 407 million, generating profit from operations for the year of Euros 1,573 million.

A financial loss amounting to Euros 112 million was reported for 2018, primarily as a consequence of the financial expenses on loans from Group companies and associates amounting to Euros 119 million.

The pre-tax profit for the period was Euros 1,461 million.

In 2018, Euros 50 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 2018 amounted to euros 1,511 million.

2. Main financial transactions

The main financial transactions undertaken during 2018 are:

- Within the ENDESA, S.A. Network Modernisation financial transaction signed with the European Investment Bank (EIB) in 2017, on 29 May 2018, Euros 500 million was drawn down. This drawdown has a variable interest rate maturing in 12 repayable years from 2022 (see Note 12.2 of the ENDESA, S.A. financial statements for the year ended 31 December 2018).
- ENDESA, S.A. extended the credit lines arranged with various financial institutions maturing in March 2020 (Euros 160 million) and March 2021 (Euros 1,825 million).
- On 21 December 2018, ENDESA, S.A. subscribed a financing, yet to be paid at the date of preparation of this Consolidated Management Report, with the European Investment Bank for the amount of Euros 335 million, maturing in 15 years and offering a three-year grace period.
- ENDESA maintained the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., and the outstanding balance at 31 December 2018 was Euros 905 million, renewable with the backing of irrevocable bank credit lines.
- On 28 December 2018, the non-renewal of the uncommitted intercompany credit line signed between ENDESA, S.A. and ENEL Finance International N.V., for Euros 1,500 million, was confirmed.

3. Events after the reporting period

Events after the reporting period are described in Note 21 to the Financial Statements for the year ended 31 December 2018.

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 20 November 2018 the Board of Directors of ENDESA, S.A. approved the shareholder remuneration policy for 2018-2021.

This policy states that the ordinary dividend per share agreed to be distributed with a charge to the years 2018-2020 shall be equal to 100% of the ordinary net profit attributed to the Parent Company in the consolidated finan-

cial statements of the Group headed by it, with a minimum equal to 1.33 euros gross per share for the financial year 2018.

For 2021, the ordinary dividend per share to be agreed to be distributed with a charge to that year be equal to 80% of the ordinary net profit attributed to the Parent Company in the consolidated financial statements of the Group headed by it.

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 2018, at a meeting on 20 November 2018 ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2018 income of Euros 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2019.

Also, the proposed distribution of profit in 2018 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 1.427 per share. Taking into account the interim dividend referred to in the preceding paragraph, the final dividend in respect of 2018 will be a gross amount of Euro 0.727 per share.





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

Information on ENDESA, S.A.'s Risk Management and Control policy is included in Note 13 to the financial statements for the year ended 31 December 2018.

5.1. Risk management and control 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 goal is to generate an exhaustive list of risks (complete coverage) based on events that could prevent, impair or delay the meeting of targets through the coordinated and efficient participation of all levels of the Company. The identification should include risks whether their origin is under the control of the organisation or whether it is due to unmanageable external causes. All causes of risk and significant consequences with economic and/or reputational impact for ENDESA are considered in the risk identification process. Each risk identified must be characterised according to the risk factor that originates it and the type of risk.

→ **Measurement:** the objective is to obtain the parameters that can be used to measure, with homogeneous methodologies, the economic and reputational impact, under the different time horizons, of all the risks that must be quantified so that they can be subsequently prioritised. This assessment includes both the valuation of scenarios and the estimation of potential loss from the evaluation of impact and probability distributions.

The objective of the two previous phases is to obtain a final report, the Risk Map, with the prioritised detail of each risk identified and assessed in descriptive cards, graphs and tables. This will be the result of the evaluation process, and will provide a representation of the Company's situation at risk with the prioritisation of the assessed risks.

→ **Control and monitoring:** the objective of this phase is to monitor risks and relevant management events. To this end, indicators are identified to monitor the change in risk comparable to the defined risk appetite. This management metric is used to give an alarm signal to anticipate the risk and is reported periodically over time.

→ **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.

The heads of risk management present this risk map, whose included risks are aligned with the strategy defined by the Company and which cover the different time horizons, and the table of indicators for periodic monitoring, to the governing bodies.

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 2018.

5.2. ENDESA's Criminal and anti-bribery risk prevention model

ENDESA is aware that the balanced fulfilment of its corporate responsibilities must be accompanied by a constant quest for excellence in the areas of business ethics in all its decision-making processes, something that must be understood in a corporate environment where strict respect for the most advanced national and international rules, practices and principles in this area is one of the cornerstones for its business activities.

With specific regard to the prevention of criminal conduct, Organic Law 5/2010, of 22 June 2010, amending Organic Law 10/1995, of 23 November 1995, of the Criminal Code not only included offences applicable to legal persons, but also referred to the need to establish surveillance and control measures to prevent and detect them. This legal regime was reformed by Organic Law 1/2015, of 30 March 2015, detailing the requirements for management and control systems that allow legal persons to prove their diligence in the field of criminal prevention and detection.

In line with these legal requirements, ENDESA has developed certain internal rules that have satisfied the need for adequate control and management systems applied in the area of criminal detection and prevention, particularly in conduct to restrict bribery.

This system comprises the following standards applicable to ENDESA:

- The Criminal and anti-bribery risk prevention model: a document that provides ENDESA with a control system aimed at preventing criminal offences within the company, complying with the provisions of the applicable regulations on the criminal liability of legal persons.
- Protocol in case of an Authority's Action under article. 31 Bis Criminal Code: sets out in detail the procedure for an adequate response in case of risk of criminal responsibility of any ENDESA company.
- The Code of Ethics of the Company: a document setting out the ethical commitments and responsibilities in the management of business and business activities assumed by ENDESA's employees, whether directors or employees of any kind, in these companies.
- The Zero Tolerance Plan against Corruption: a document that represents ENDESA's firm commitment to the fight against corruption, which is the result of its adherence to the United Nations Global Compact.
- Corporate Integrity Protocols: are the following documents:
 - > The Action protocol in matters of conflicts of interest, exclusive dedication and commercial competition.
 - > The Protocol for accepting presents, gifts and favours
 - > The Action Protocol for dealing with public servants and the authorities.

The Criminal and Anti-Bribery Regulatory Compliance Policy is another part of these internal rules. Together with those mentioned above, they all make up ENDESA's Criminal and Anti-Bribery Regulatory Compliance Management System (hereinafter, the "Criminal Regulatory Compliance System"), which is an integrated body of provisions that not only respects Spanish legal requirements in this area, but is also sufficient to meet the expectations reasonably placed on organisations that operate with the highest levels of commitment in advanced markets, such as ENDESA.

Since October 2017, ENDESA's Criminal Regulatory Compliance System has been accredited by AENOR in accordance with "UNE 19601" (Compliance Management) and "UNE-ISO 37001" (Anti-bribery Management) standards.

The Audit and Compliance Committee (CAC) is responsible for correctly applying the "Criminal Regulatory Compliance System"; for which purposes it uses the Supervision Committee, which is a collegiate body endowed with autonomous powers of initiative and control and independence in the exercise of its functions and whose powers and principles of action are established in its Regulations. The Supervision Committee reports solely and exclusively to the Audit and Compliance Committee (CAC), which, among others, has specific functions for criminal risk prevention according to its Rules of Procedure.

5.3. 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:

5.3.1. 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 position 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 1,309 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May 2011, 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 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 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 antitrust laws in the markets in which it operates. Infractions of these laws and other applicable regulations, especially in Spain where ENDESA's main market is located, could lead to the initiation of legal proceedings against ENDESA.

Pursuant to Organic Law 5/2010, of 22 June 2010, which amended Organic Law 10/1995, of 23 November 1995, on the Criminal Code incorporating offences applicable to legal persons, subsequently amended by Organic Law 1/2015, of 30 March 2015, ENDESA is subject to criminal liability for certain offences. Any violations of these laws could give rise to legal proceedings 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 that 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.

The Company is exposed to the prices of carbon dioxide (CO₂) emission rights, which in turn influences the production cost of coal plants 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. In recent years, supply and demand management has been carried out, considerably expanding the international customer base in order to ensure a balance between purchase commitments and the volume of own consumption and sales to customers. Furthermore, ENDESA has entered into electricity and natural gas supply 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 that 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 the residential and small business customer categories. 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 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.

5.3.2. 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 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.

5.3.3. 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 death. 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 proven experience, reputation and influence in the Energy Sector, through forging 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 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 cybersecurity 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.

5.3.4. Financial risks associated with ENDESA's business lines

Note 13 to the Financial Statements for the year ended 31 December 2018 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 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 2018.

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 2018.

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 2018.

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.

5.3.5. 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 2018.

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 that 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 that 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 the Company's business activities, results, financial position and cash flows.

5.3.6. 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 2018, 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 2018.

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 2018.

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 works 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 position 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 that could affect ENDESA most: loss of biodiversity, terrorism, hydric stress, cybersecurity, 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 financial statements of ENDESA S.A., for the year ended 31 December 2018.

7. Human resources

At 31 December 2018, the Company had a total of 1,287 employees (1,360 employees at 31 December 2017).

The Company's average workforce in 2018 was 1,295 employees (1,405 employees in 2017).

By gender, at 31 December 2018, 49.2% of ENDESA's workforce were male, and 50.8% 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 2018.





Occupational health and safety (OHS)

ENDESA S.A. considers the occupational health and safety (OHS) 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 2018 and 2017, the main variations in occupational health and safety indicators were as follows:

	Main figures	
	2018	2017
Combined frequency index (employees and other contractors) ¹	1.39	1.26
Combined seriousness index ²	0.05	0.08

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.

8. Treasury shares

The Company did not hold any treasury shares at 31 December 2018 and did not carry out any transactions involving treasury shares in 2018.

9. Environmental protection

Information on the environmental activities is provided in Note 20 to the financial statements of ENDESA, S.A. for the year ended 31 December 2018.

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 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 2018.

12. Annual Corporate Governance Report as required by Article 538 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act

The 2018 Annual Corporate Governance Report, as required by Article 538 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act, forms an integral part of this Management Report, and its contents are available on the website of the Spanish National Securities Market Commission (CNMV) at the following address:

<https://www.cnmv.es/portal/consultas/EE/Informacion-GobCorp.aspx?nif=A-28023430&lang=en>

13. Non-financial Statement as required by Law 11/2018, of 28 December 2018, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July 2010, and Law 22/2015, of 20 July 2015, on the auditing of financial statements, on non-financial and diversity information

The Non-financial Statement as required by Law 11/2018, of 28 December 2018, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July 2010, and Law 22/2015, of 20 July 2015, on the auditing of financial statements, in the areas of non-financial and diversity information, is included as Appendix I to this Management Report and forms an integral part thereof.

25 February 2019



Appendix I

Non-Financial Statement

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



Non-Financial Statement of ENDESA, S.A.

endesa

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Organisation of ENDESA

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 Non-Financial Statement

This document, which forms an integral part of the Consolidated Management Report at 31 December 2018 of the

ENDESA Group, was drawn up according to the requirements of Law 11/2018, of 28 December, which amends the Code of Commerce, the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Audit of Financial Statements, in matters of non-financial information and diversity.

To provide this information, the ENDESA Group has followed the precepts of the Global Reporting Initiative (GRI Standards) and its “Electric Utilities Sector Supplement” for the indicators listed in the attached Annex.

The scope of this Non-Financial Statement includes the information of ENDESA, S.A. for the year 2018.

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. operates its electricity generation activity in the mainland system and in the Non-Mainland Territories (TNP), which include the Balearic and Canary island territories and the self-governing cities of Ceuta and Melilla and also includes 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%).
- ENDESA Red, S.A.U., whose purpose is to distribute electricity to the consumption points and includes, among others, ENDESA Distribución Eléctrica, S.L.U. (100%), and ENDESA Ingeniería, S.L.U. (100%).
- ENDESA Energía, S.A.U., whose main business is the supply of energy to customers wishing to exercise their

right to choose their supplier and take up the service on the deregulated market. It 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%), which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U. supplies the deregulated markets of Germany, France, the Netherlands and Portugal.

- ENDESA X, S.A.U. (100%), which develops and market new services adapted to trends in the energy market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities in electric mobility, demand management, distributed generation, energy storage and the enlargement of the range of services provided to domestic, industrial and institutional customers.

1.7. Markets supplied

ENDESA generates, distributes and sells electricity and sells gas mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France 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:

- **Generation:** ENDESA carries out its electricity generation activities in the mainland system and in Non-Mainland Territories, which include the Balearic and Canary Islands and the self-governing cities of Ceuta and Melilla.
- **Supply of electricity, gas and value-added products and services:** ENDESA markets electricity and VAPS in all of Spain and Portugal



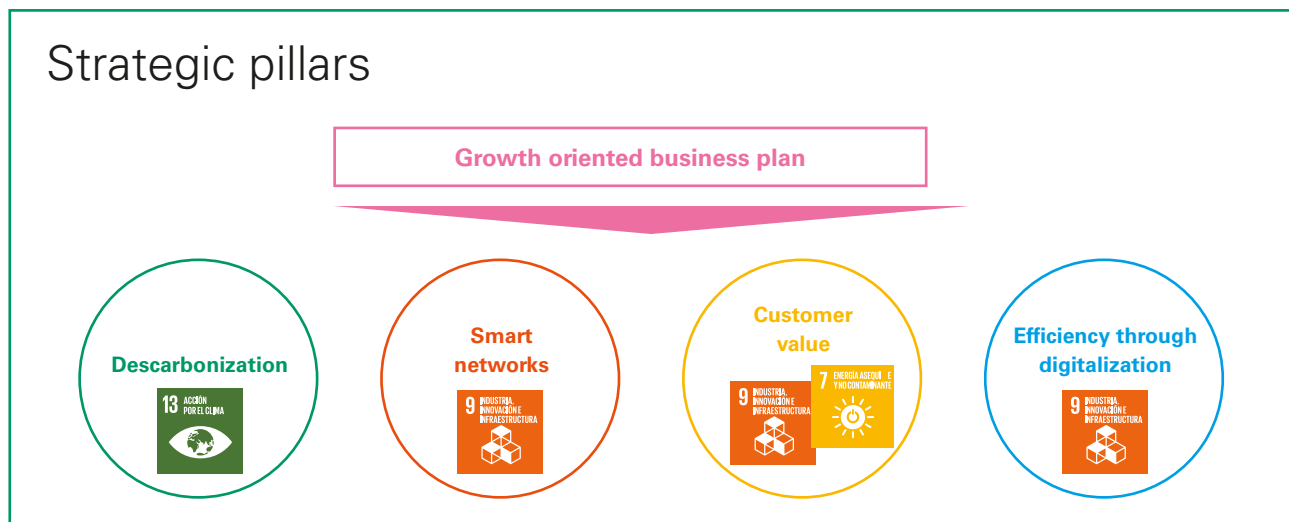
→ **Distribution of electricity:** ENDESA distributes electricity in 27 Spanish provinces and across 10 Autonomous Communities (Andalusia, Aragón, the Balearic Islands, the Canary Islands, Castilla y León, Catalonia, Valencia, Extremadura, Galicia and Navarra) and the self-governing city of Ceuta, covering a total area of 195.487 km² with a total population of nearly 21 million.

1.8. 2019-2021 Strategic Plan; Objectives and Strategy

ENDESA focuses its business on helping to respond to the significant challenges faced by the societies where it operates,

from a perspective of creating shared value. As a result, the analysis of the pre-eminent social, environment, economic and ethical trends and the significance of these matters for its stakeholders are essential to guide the company's Strategic Plan.

In this regard, ENDESA's 2019-2021 Strategic Plan establishes the following strategic pillars within the framework of a business plan focused on growth: Decarbonisation, smart grids, customer value and increased efficiency via digitisation. These strategic pillars are directly associated with the Sustainable Development Goals of the United Nations, as ENDESA is not only aware of the very relevant role played by companies in the compliance of these goals, but also of the business opportunities they represent:



→ **Decarbonization:** As an example of its commitment to decarbonisation of the industry, the company has established its goal for 2050 of 100% electricity production with zero emissions. The interim goals of reduction involve lowering CO₂ emissions to 27 MtCO₂ in 2020, versus those of 51 Mt in 2005 (reduction of 47% vs. 2005) and reducing the same to less than 20 MtCO₂ in 2030 (reduction of 44% vs. 2020).

This strategic pillar is embodied in:

A significant increase in renewable energies: In the generation mix, renewable generation is our primary platform for growth.

The goal of installed capacity for 2021 is based on increasing wind and solar capacity by 1.9 GW vs. 2018 and thereby obtain 3.7 GW, while maintaining hydroelectric capacity at 4.8 GW. The total of installed

capacity of renewable energy in 2021 would increase to 8.4 GW.

The production goal for 2021 is a total of 15.7 TWh, with an approximate increase of 25% compared to 2018. These 15.7 TWh are broken down into 8.2 TWh produced by wind and solar technologies and 7.5 TWh of hydroelectric production. Maintaining a sufficient number of thermal generation plants to provide low-emission and competitive support, guaranteeing safe supply and reducing the impact on the environment by enhancing the favourable impact of necessary environmental investments. As regards conventional generation, the Plan envisions updating environmental requirements and improving plant availability (average availability of 90% in 2021), and obtaining sustainable and efficient operation. The Plan anticipates the closure of the Compostilla and

Teruel facilities in 2020 and the implementation of BREF (best available techniques) in the As Pontes plant. The investment in BREF in the Litoral plant is now complete. In the Balearic and Canary Islands, the Plan provides for IED investments (Industrial Emissions Directive 2010/75/EU/BREF). As regards batteries, the pilot project in the Litoral de Almería plant has been completed and new projects are in place in As Pontes and the Canary Islands. The goals for 2021 include 6.3 GW in conventional thermal capacity, with a reduction of 2.1 GW vs. 2018, maintaining nuclear capacity at 3.3 GW and off-mainland capacity of 4.3 GW, with a reduction of 0.2 GW compared to 2018.

→ **Smart grids:** The Plan has been drawn up from the conviction that grid digitisation and modernisation are essential for the integration of distributed resources, participation of demand and to ensure proper system operation in a new energy model that increases electrification and distributed generation. In sum, smart grids are considered to offer new opportunities for investment in energy transition. It contemplates increasing the Company's efficiency on the path to excellence and its conversion into a digital grid operator. Therefore, the Plan continuously focuses on operating efficiency to improve service quality by reducing power disruptions and losses.

After the phase involving deployment of digitisation and grid updating, investments will increase by approximately 100 million Euros, totalling 1.800 million Euros for the 2019-2021 period. Of this amount, approximately Euros 800 million are currently allocated to grid updating and Euros 1.000 million to grid digitisation, including automation, modernisation and other transformations. An additional investment of Euros 100 million in smart meters is included, whereby the total investment amounts to Euros 1.900 million.

The goals for losses in 2021 amount to 8.9% which is an approximate improvement of 5% compared to 2018. Supply interruption is set at 52 minutes, a reduction of 25% with regard to 2018, while improving efficiency (the OPEX ratio drops from €45/customer to €41/customer in 2021).

→ **Customer value:** In this context, the customer is called on to play a key and leading role in the penetration of home and industry electrification, distributed generation, efficient consumption, electric mobility and the rest of the components of the new energy model. This

has also been considered a key element in the ENDESA strategy, based on customer value.

As regards customers, the four primary lines of action contemplated in its Strategic Plan 2019-2021 are as follows: to consolidate the energy and gas businesses, implement a strategy based on customer value, drive innovation, new business models and digital platforms and digitise customer-associated processes.

As regards the consolidation of the energy and gas businesses, the 2019-2021 Strategic Plan seeks to maintain the leadership in the electricity business by increasing sales by 3% (up to 106 TWh in 2021) and customers (10.9 million in 2021 vs. 10.8 million in 2018), with a market share of 35%, improving the sustainability of the integrated margin (from approximately €23/MWh of 2018 to approximately €27/MWh in 2021). In addition, the goal for gas is to fortify the Company's position as the second largest gas operator (sales of 90 TWh, with a market share of 16% and a 19% increase in customers to 1.9 million on 2021), increasing the margin resulting from the substantial recovery of fundamental market indicators.

As regards improving efficiency and customer experience, digitisation of customer-associated processes and automation to reduce service costs are essential factors. The 2019-2021 Strategic Plan includes a goal to reduce service costs for electricity and gas customers from €13/customer to €11/customer, with the aim of maintaining stability in the current levels of customer rotation in electricity (slight reduction to 10% in 2021) and gas (at approximately the current 15%). The 2019-2021 Strategic Plan anticipates a growth trend in all digital KPIs:

- Electronic billing: Customer increase of approximately 40%, reaching 3.9 million in 2021.
- % of customer digital service: Reach 78% of customers in 2021 (vs. 72% in 2018).
- Digital contracts: An increase of 19% (4.4 million in 2021 vs. 3.7 million in 2018).



Furthermore, ENDESA X promotes key businesses for decarbonisation, such as distributed generation, smart lighting and electric mobility.

Thus, in the area of new businesses, ENDESA has established the following goals:

- > For maintenance and repair customers (e-Home) the goal for 2021 is 2.5 million versus 1.8 million recorded in 2018.
- > For energy infrastructure (e-Industries) the goal established for 2021 is Euros 1.300 million, versus Euros 1.100 million in 2018.
- > For points of light (e-City), the goal for 2021 is 130.000 compared to 95.000 in 2018.
- > For charging stations (e-Mobility), the goal for 2021 is 41.000 versus 2.000 in 2018.

→ **Efficiency through digitalisation:** ENDESA considers digitisation of its entire value chain (generation, distribution, marketing, people) as a key engine to improve efficiency.

The most relevant aspects of this effort are:

- > In distribution, digitisation of system processes and integration, data-driven grids (quality plan, reduction of losses, remote control) and smart meters.
- > In marketing, advanced analyses, new platforms (new CRM) channel digitisation (electronic billing, etc.), new digital billing platform.
- > In generation, predictive diagnosis, digital transformation of employees and control system response.
- > In ENDESA X (new businesses), the development of digital platforms.

For further details concerning the 2019-2021 Strategic Plan, please refer to the company's website at <https://www.ENDESA.com/es/sobre-ENDESA/a201610-estrategia-plan-estrategico.html>

It is therefore clear that ENDESA's Strategic Plan seeks to strengthen its position as a leader in the Iberian market and obtain sustainable, long-term profitability for the shareholder, while contributing to achieving the Sustainable Development Goals of the United Nations (SDG), to which it made a public commitment in 2016:

→ SDG 13 (Fight Against Climate Change): 100% decarbonisation of the energy mix in 2050 with a road map that sets out clear objectives for 2020, 2030 and 2040.

→ SDG 9 (Innovation and Infrastructure): Investment of Euros 1.3 billion over the period of the 2019-2021 Strategic Plan to be at the forefront of future energy developments through digitalisation and ENDESA X.

→ SDG 7 (Clean and Accessible Energy): Electricity supply to all vulnerable customers, through the implementation of the new social bonus and the adaptation of the agreements signed with local authorities to guarantee electricity supply to low-income customers.

ENDESA also contributes to the commitments made by its parent company in relation to SDG 4 (Education), to which it has made a public commitment to reach 164.000 beneficiaries in the 2015-2020 period, and SDG 8 (Socioeconomic Development), where the company has publicly undertaken to reach 241.000 beneficiaries in the same period through the Company's social initiatives.

Thus, ENDESA's Strategic Plan is focused in creating sustainable, long-term value.

1.9. Factors and trends that can affect our progress in the future

See the chapter on Risk Management in this document.

2. ENDESA, S.A. dimensions

2.1. ENDESA, S.A. in figures

	2016	2017	2018
PROFIT FROM OPERATIONS (millions of euros)	1,495	1,603	1,571
PROFIT FOR THE YEAR (millions of euros)	1,419	1,491	1,511
NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES (millions of euros)¹	14,793	14,803	18,894
SHARE CAPITAL (millions of euros)¹	1,271	1,271	1,271
NON-CURRENT FINANCIAL DEBT (millions of euros)¹	4,928	4,955	10,371
FINAL HEADCOUNT (NUMBER OF EMPLOYEES)¹	1,391	1,360	1,287

¹ At 31 December.

For further information on the figures for ENDESA, S.A. and subsidiaries, see Chapter 1, section 2 of the Non-Financial Statement and diversity in the Consolidated Management Report of the same for the year ended 31 December 2018.

2.2. Tax information by country

(Data in millions of €)		2017		2018		
Country	Total income	Accounting profit before tax	Impuesto sobre Beneficios	Income tax	Accounting profit before tax	Income tax
Spain	2,033	1,487	-99	1,998	1,461	-46

3. Significant organisational changes

In 2018, the significant changes at the Company were as follows:

- The acquisitions of the following companies, all of which develop the wind and photovoltaic capacity



awarded to ENEL Green Power España, S.L.U. (EGPE)
in 2017 capacity auctions:

	Acquisition Date	Technology	Companies acquired in 2018			
			% Ownership at 31 December 2018		% Ownership at 31 December 2017	
			Control	Económico	Control	Económico
Valdecaballero Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Navalvillar Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Castiblanco Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Parque Eólico Muniesa, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Parque Eólico Farlán, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Aranort Desarrollos, S.L.U.	19 January 2018	Wind	100.00	100.00	—	—
Bosa del Ebro, S.L.	21 February 2018	Wind	51.00	51.00	—	—
Tauste Energía Distribuida, S.L.	23 March 2018	Wind	51.00	51.00	—	—
Eólica del Cierzo, S.L.U.	23 March 2018	Wind	100.00	100.00	—	—
San Francisco de Borja, S.A.	23 March 2018	Wind	66.67	66.67	—	—
Energía Eólica Alto del Llano, S.L.U.	11 May 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Campoliva, S.A.U.	17 July 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Sierra del Carazo, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Alcohujate, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—

- On 3 April 2018, an agreement was signed, through ENEL Green España, S.L.U. (EGPE), for the acquisition of 100% of the share capital of the companies Parques Eólicos Gestinver, S.L.U. and Parques Eólicos Gestinver Gestión, S.L.U.
- Parques Eólicos Gestinver, S.L.U. has installed wind power capacity of 132 MW, distributed across five wind farms located in the regions of Galicia and Catalonia. Through this acquisition, ENDESA reinforces its presence in the Iberian generation market by expanding the portfolio of renewable assets in its production mix.
- On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60.0% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists of the generation of electricity through renewable wind technology, and in which it previously held a 40.0% stake. As a result of this transaction, ENDESA took full control of Eólica del Principado, S.A.U. versus the significant influence it had until that date.
- On 25 July 2018, ENDESA Red, S.A.U. acquired 94.6% of the share capital of Empresa de Alumbrado

do Eléctrico de Ceuta, S.A., which includes 100% of Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. and 100% of Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U. Subsequently, in November and December 2018, an additional 1.6% and 0.1%, respectively, of share capital was acquired, leaving the shareholding in Empresa de Alumbrado Eléctrico de Ceuta, S.A. at 31 December 2018 at 96.3%.

Empresa de Alumbrado Eléctrico de Ceuta, S.A. has more than 30.000 customers and is the leading electricity distribution and supply company in Ceuta, a region where ENDESA carries out electricity generation activities. Therefore, this acquisition is coherent with the strategy of driving growth in distribution and supply in Spain and Portugal.

ENDESA X, S.A.U. was created on 26 June 2018 to develop and market new businesses adapted to trends in the energy market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities in electric mobility, demand management, distributed generation, energy storage and the enlargement of the range

of services provided to domestic, industrial and institutional customers.

4. Commitment to a sustainable energy model

4.1. Open Power strategic positioning

The encompassing macro-trends (climate change, urban population concentration, empowerment of civil society, technological and digital revolution) has resulted in a profound change in the energy sector in recent years.

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 this change, the Company is situated in a new energy era that is 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 ethical criteria, 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, as evidenced by its *Open Power* strategic positioning and the creation of shared value, ensuring that the activity it carries out has a positive impact on the communities in which it operates, as the best way of guaranteeing return for its shareholders in the short, medium and long term.

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.





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. Its compliance is expressly supported by the Company's senior management, it 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. 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.

5. Dialogue with stakeholders

The stakeholders and their expectations are the foundation from which ENDESA, S.A. articulates its sustainability strategy and serve to focus its industrial plan and enable it to respond to these needs, reducing risks and making the most of the business opportunities generated by satisfying these expectations. 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.

For further information see Chapter 1, section 5 of the Non-Financial Statement and diversity in the Consolidated

Management Report of ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

6. Materiality study: Identification of priorities based on dialogue with stakeholders

6.1. Priority identification process

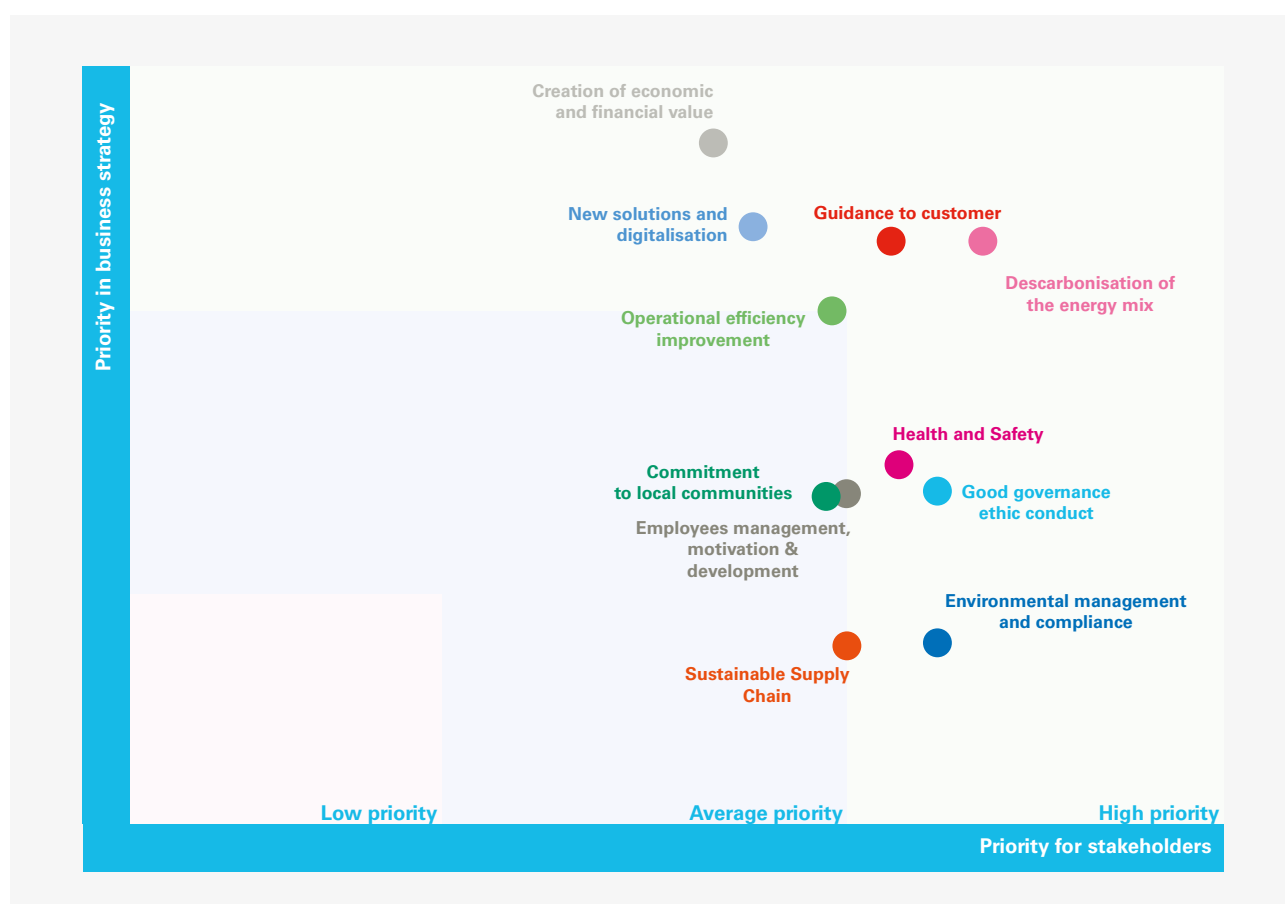
In order to integrate stakeholder expectations in a structured aligned manner with the Company's purpose, ENDESA annually performs a priority identification process to assess and select the economic, ethical, environmental and social aspects that are relevant for the stakeholders and for the Company's strategy.

In 2018, ENDESA performed a materiality study, which served as a base to define the priorities of its 2019-2021 Sustainability Plan. In 2018, ENDESA did this by conducting an ad hoc analysis (focus group for social entities), updating the information of trend and investor analyses and other reports (such as the corporate reputation report and the customer satisfaction survey, among others) and completed this analysis with the result of the work performed in 2017, amounting to more than 4.000 sources and representatives of 18 different stakeholders, undertaking the following analyses and tasks:

- 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.
- Focus group on more than 80 social organisations at the national and local level
- Analysis of existing reports that include matters relating to the Company's sustainability: Corporate reputation report, employee climate survey and customer satisfaction survey.

The results of the combined analysis of the relevance in the business strategy and priority for the stakeholders for each item are expressed in the following chart:



As shown in the previous chart, among the most significant matters for the Company's sustainability are, as have appeared in previous years 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 Non-Financial Statement and diversity included in the Consolidated Management Report of ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

7. ENDESA's Sustainability Plan

7.1. ENDESA's 2018-2020 Sustainability Plan (PES)

For ENDESA, sustainability has played a key role in defining its business focus for years. 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.

The materiality analysis of ENDESA's Sustainability Plan is used to shape the strategy defined in the Industrial Plan. Indeed, ENDESA's Sustainability Plan (PES) 2018-2020 defined 4 priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan: growth through low-carbon technologies and services, optimisation of assets and innovation, involvement and inclusion of local communities and involvement and inclusion of our people.

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: good governance and ethical conduct, occupational health and safety, environmental sustainability and responsible supply chain, oriented towards the creation of economic and financial value and with two transversal drivers: digitalisation and a customer-centric approach.

With more than 100 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2018-2020 Sustainability Plan (PES), and has achieved overall compliance of 94%.

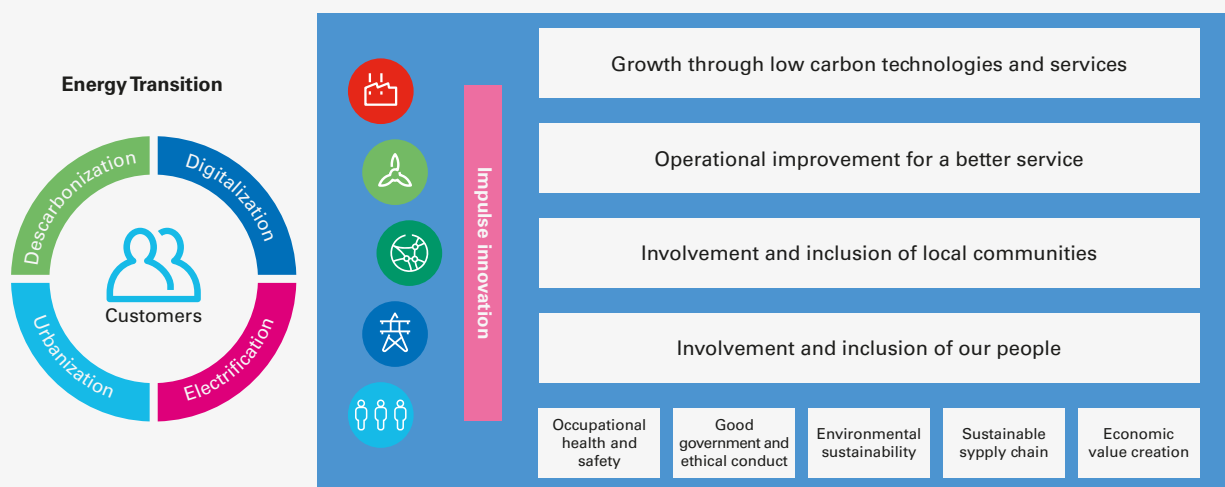
As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA discloses compliance with its objectives and the courses of action in the 2018-2020 Sustainability Plan (PES) in this Non-Financial Statement (see following headings) and in the 2018 Sustainability Report, which will be available for consultation on its website www.ENDESA.com.

7.2. ENDESA's 2019-2021 Sustainability Plan (PES)

On 21 November 2018, ENDESA presented the update of its 2019-2021 Strategic Plan to the investment community. Moreover, and with the aim of achieving 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 2018 for the design of its new 2019-2021 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.

For further information see Chapter 1, section 7.2 of the Non-Financial Statement and diversity in the Consolidated Management Report of ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

Structure of ENDESA's 2019-2021 Sustainability Plan



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 goal is to generate an exhaustive list of risks (complete coverage) based on events that could prevent, impair or delay the meeting of targets through the coordinated and efficient participation of all levels of the Company.
- **Measurement.** The objective of the two previous phases is to obtain a final report, the Risk Map, with the prioritised detail of each risk identified and assessed in descriptive cards, graphs and tables. This will be the result of the evaluation process, and will provide a representation of the Company's situation at risk with the prioritisation of the assessed risks.
- **Control and monitoring.** The objective of this phase is to monitor risks and relevant management events. To this end, indicators are identified to monitor the change in risk comparable to the defined risk appetite. This management metric is used to give an alarm signal to anticipate the risk and is reported periodically over time.
- **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. Criminal and Anti-Bribery Regulatory Compliance Policy

Organic Law 5/2010, which amends Organic Law 10/1995 of 23 November of the Criminal Code, established a range of offences applicable to legal entities and referred to the need to establish surveillance and control measures for their prevention and detection. This legal regime was reformed by Organic Law 1/2015, of 30 March, detailing the requirements that allow legal entities to prove their diligence in the field of criminal prevention and detection.

In accordance with the provisions of this Organic Law, ENDESA has developed certain internal rules that have satisfied the need for adequate control and management systems applied in the area of criminal detection and prevention, particularly in conduct to restrict bribery.

ENDESA's Criminal and Anti-Bribery Regulatory Compliance Policy (hereinafter, "Compliance System") includes a comprehensive body of provisions, the basis of which is the Criminal and Anti-Bribery Regulatory Compliance Policy, which respects Spanish legal requirements in this area and is also sufficient to meet the expectations reasonably placed on organisations that operate with the highest levels of commitment in advanced markets.

The main activities that take place in ENDESA for the effective application of the Compliance System are risk assessment and control and surveillance of the same, thereby guaranteeing its design and operation.

The Criminal and Anti-Bribery Regulatory Compliance Policy was approved by the Board of Directors on 6 November 2017 and supplements the Risk Control and Management Policy; the former establishes the general principles of the Compliance System, which underlies the contents and application of all corporate internal rules, as well as the conduct of the Organisation.

3. Main sustainability risks - Impacts, risks and opportunities related to environmental and social matters

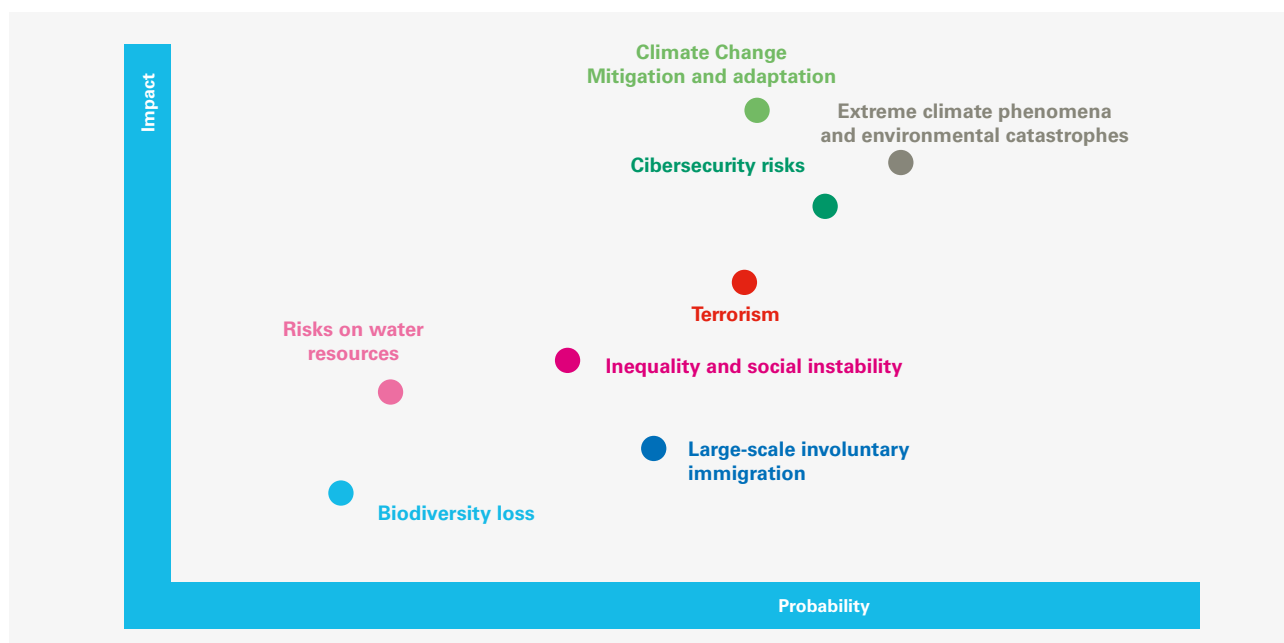
ENDESA is exposed to certain risks, which it manages by applying risk identification, measurement, control and management systems. In this regard, the different types of risk, financial and non-financial (among others, operational, technological, legal, social, environmental, political and reputational risks) faced by the Company are taken into account. These aspects are included in the Company's Risk Control and Management System and are supervised by the Board of Directors' Audit and Compliance Committee (CAC).

In 2018, ENDESA updated the identification of emerging sustainability risks with a medium- and long-term impact

related to certain dimensions involving sustainability, as it has done annually and systematically in the past. The objective is to analyse the impact on the business and to establish the measures required for their control and prevention.

To do so, ENDESA used as reference the identification of global risks prepared by the World Economic Forum after consulting with 750 experts from the worlds of business, universities, civil society and the public sector on the perception of global risks over a future period of 10 years. 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 and the factors that may affect future performance to be identified.

The resulting risks map does not change significantly from that of the previous year, as no macro-trends have been identified.



For further information see section 2 of the Risk Management chapter in the Non-Financial Statement and diversity in the Consolidated Management Report of ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.



Respect for human rights

1. 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 society:

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.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 was 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.

Given the importance that this matter has for ENDESA, the entire process was submitted to the Audit and Compliance Committee (CAC) on 29 January 2018 to inform it of the most significant results of the due diligence process and the plan of action that had been designed, for the purpose of monitoring the process annually. Likewise, in its meeting

of 28 January 2019, the CAC was informed of the actions taken in 2018 to comply with the mentioned action plan.

For further information see sections 2, 3 and 4 of the Respect for Human Rights chapter in the Non-Financial Statement and diversity in the Consolidated Management Report of ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.

3. Complaints regarding violation of human rights. Cases of discrimination and corrective measures taken

In 2018, at ENDESA, S.A. there were no complaints regarding human rights (mobbing or corporate climate and human resources management).



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 31-12-2018

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 Damián Bogas Gálvez	Executive	07/10/2014
Director	Alejandro Echavarría Busquet	Independent	25/06/2009
Director	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	Maria Patrizia Grieco	Proprietary	26/04/2017
Secretary	Borja Acha Besga	—	01/08/2015

¹ Appointed as Chairman on 24/03/2009.

	Qualities and skills					Diversity			
	Finance and Risk	Engineering	Legal	Management	Strategy	Years holding position	Nationality	Gender	Age
Borja Prado Eulate	✓		✓	✓	✓	11	SPA	H	62
Francesco Starace	✓	✓		✓	✓	4	ITA	H	63
José Bogas Gálvez	✓	✓		✓	✓	4	SPA	H	63
Alberto De Paoli	✓			✓	✓	4	ITA	H	53
Miquel Roca Junyent	✓		✓	✓	✓	9	SPA	H	78
Alejandro Echevarría Busquet	✓			✓	✓	9	SPA	H	76
Maria Patrizia Grieco	✓		✓	✓	✓	1	ITA	M	66
Enrico Viale	✓	✓		✓	✓	4	ITA	H	61
Helena Revoredo Delvecchio	✓			✓	✓	4	ARG	M	71
Ignacio Garralda Ruiz de Velasco	✓		✓	✓	✓	3	SPA	H	67
Francisco de Lacerda	✓			✓	✓	3	PORT	H	58

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 governance) 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, Article 9 of the Board of Directors' Regulations states that "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

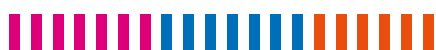
commitment of sufficient dedication to perform the tasks of the former.

The General Shareholders' Meeting or, if applicable, 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 approved by the Board of Directors in the former 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 practices of corporate governance) 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 Policy for the Selection of 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.

1.4. Remuneration of Directors

The remuneration of directors for their role as such is comprised of the following items: a fixed monthly salary and per diems for attendance at each meeting of the Company's management bodies and their committees.

→ The "fixed monthly salary," as per the release date of this report, matches the amount allocated for this item since January 2013, which stands at Euros 15.6 thousand gross. This item also includes Euros 1 thousand gross per month for the positions of Chairman of the Audit and Compliance Committee and of the Appointments and Remuneration Committee and Euros 2.1 thousand gross per month for the position of Coordinating Director.

→ -Per diem for attendance at the meetings of the Board of Directors, Audit and Compliance Committee and the Appointments and Remuneration Committee, which as per the release date of this report continues to be the amount approved by the Board on January 21 2013 and stands at Euros 1.5 thousand gross.

The average remuneration of directors in 2018 for performing their duties as such is detailed below:

	Media total	Media hombre	Media mujer	% diferencia
Fixed	194.71	197.51	187.71	
Per diem	38.42	42.97	27.05	
Total	233.13	240.48	214.76	12%

The ENDESA Board of Directors is comprised of 11 directors. However, the data are calculated for the seven Directors (five men and two women) who receive remuneration for their duties as such. The other four directors (all men) have refused to receive remuneration as directors for their duties as such and therefore have not been included in the calculation so the average is not altered artificially.

Although the amounts of remuneration items are the same for men and women, there is a difference of 12% in average remuneration, due to the number of per diems that correspond to belonging or not to the Board Committees and attending meetings (only one of the female directors forms part of two committees); in addition, this female director does not hold the position of chairman and, therefore, does not receive the corresponding remuneration.

Fight against corruption and bribery

1. Material aspects and objectives

1.1. List of material aspects

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, 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 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 each material aspect – ENDESA's Sustainability Plan (PES)

Through the ENDESA Sustainability Plan and the implementation of its ethics compliance model, ENDESA meets these expectations and establishes objectives and measures to fulfil this purpose.

For more information on the degree of compliance of ENDESA's 2018-2020 Sustainability Plan with ethical conduct priorities and the new goals established within the framework of ENDESA's 2019-2021 Sustainability Plan, refer to the chapter on the Fight against corruption and bribery in the Non-Financial Statement included in ENDESA, S.A. and subsidiaries Consolidated Management Report for the year ended on 31 December 2018.

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 which ENDESA 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 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 prepared which, together with those cited above, constitute the ENDESA Group's “Criminal and Anti-Bribery Regulatory Compliance 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 ongoing 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 and Anti-Corruption Model (hereinafter, 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 entities, 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 Secretary of the Board of Directors (who is the Committee Chair), the General Director of Corporate Legal Counsel and Compliance, the Director of Business Legal Counsel and the Director of Human Resources and Organisation.

In 2018, the Supervision Committee met on five occasions and, at those sessions, it monitored the main matters relating to the Criminal Risk Prevention and Anti-corruption Model, even envisaging the involvement of heads from di-

fferent 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 General Management of 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 2018 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 Model, through a review of the adequate design and operation and testing of certain control activities,
- The performance of various training and information initiatives for Company employees on the framework of ethical reference and of criminal prevention compliance in force at ENDESA.
- Review and update of the Model to retain 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 and Anti-corruption 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 2018, ENDESA, S.A. received one complaint through the Ethics Channel, which was investigated and closed and had nothing to do with corruption. No cases of non-compliance with the Code of Ethics were verified.

Complaints related with corruption

	2017	2018
Conflicts of interest/Corruption	0	0
Fraud or robbery of the Company. / Undue use of resources	1	0
Total	1	0

4. Measures to combat money-laundering

ENDESA does not fall subjectively within the application of Law 10/2010, dated 28 April on the prevention of money laundering and terrorism financing (Article 2) and other regulations that implement the same, or applicable EC regulations, notwithstanding its absolute respect for the legal provisions in this matter that may be applicable to ENDESA's commercial trade.

Notwithstanding the above, ENDESA's Criminal Risk Prevention and Anti-corruption Model, which is a structured

and organic system of surveillance and control procedures and activities that are ideal for the prevention of offences, explicitly states the offence of money laundering within its scope of application and is thereby considered an adequate and sufficient measure to prevent these criminal offences, given the change in ENDESA's activity. The ENDESA Model contemplates 25 specific control activities against the risk of money laundering in the various Group Companies.

As a key element of the Model, ENDESA promotes a culture of compliance by training employees in this area. The Company has launched an on-line course on the Model, the contents of which deal with the offences considered by the Spanish Criminal Code to involve criminal accountability for legal entities and focused on those that apply to the context of ENDESA, and which include money laundering.

Since October 2017, the Model holds the UNE-19601/2017 certification for "Compliance Management Systems", as well as the UNE-ISO 37001/2017 certification for "Anti-bribery Management Systems".

There are also policies and procedures in place that regulate certain Company processes that may entail risks associated with money laundering, some examples of which are as follows:

- Policy 104 on the analysis of counterparties.
- Policy 162, which applies to all parties subject to scoring and which requires a declaration of integrity from suppliers.
- Organisational Procedure 209, on the verification of supplier trustworthiness in purchasing processes.

Environmental sustainability

1. Material aspects and objectives

1.1. List of material aspects

In 2018, 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 2018 materiality study.

Climate change is currently the primary environmental issue for companies in the energy industry. In 2017, electricity generation in Spain was responsible for 21% of greenhouse gas emissions (GHG)¹, although it should be noted that it was the warmest and second driest year since 1965, which resulted in greater use of thermal power plants. ENDESA is aware of its role in this regard and of its capacity to contribute to achieving a low-carbon economy. Therefore, among its priorities is the gradual reduction of greenhouse gas emissions (GHG) 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

¹ MITECO: Information note on the Advance of Greenhouse Gas Emissions corresponding to 2017: https://www.miteco.gob.es/es/calidad-y-evaluacion-ambiental/temas/sistema-espanol-de-inventario-sei/notaresultadosavance-2017_tcm30-457778.pdf

2050, which will be attained by following the road map established in its Strategic Plan 2019-2021.

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.

1.2. How the Organisation manages each material aspect – ENDESA's Sustainability Plan (PES)

ENDESA includes the material aspects detected in its sustainability plans and sets quantitative goals focused on promoting excellence in plan management in order to assess the level of commitment and performance achieved.

For more information on the degree of compliance of ENDESA's 2018-2020 Sustainability Plan with environmental priorities and the new goals established within the framework of the ENDESA 2019-2021 Sustainability Plan, refer to the chapter on the environmental sustainability in the Non-Financial Statement included in the ENDESA, S.A. and



subsidiaries Consolidated Management Report for the year ended on 31 December 2018.

2. Environmental policy

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 key 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.
- Asking contractors, suppliers and business partners to implement environmental policies based on these same principles.

3. Business model: Fight against 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 emissions reduction plan to decarbonise the generation mix by 2050, consistent with the national and European goals set forth in the 2050 Road Map and the 2030 Energy and Climate Package. This Plan contemplates a gradual increase in electricity that is free of CO₂ with the aim of reaching 100% in 2050 and interme-

diate goals of approximately 55% and 65% of generation mix free of CO₂ for the years 2005, 2020 and 2030, respectively.

Thus, ENDESA's strategy consists in investing in low-coal generation technologies and to increase the value of coal-free energy production. This represents an opportunity for ENDESA. Accordingly, in 2016, ENDESA 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.

To consolidate its commitment with the decarbonisation road map, in its 2019-2021 Strategic Plan, ENDESA has set a goal to increase installed renewable energy capacity by over 30% by 2021, with an associated investment of Euros 2.000 million.

It is important to highlight that the decarbonisation drive in Europe has, to date, focused especially on the energy sector and revealed the need for greater participation of other sectors in these efforts. In line with the above, there has been a growing relevance in policies centred on mitigating Greenhouse Gases (GHG) associated with the transport sector, which is responsible for approximately 27% of all emissions in the European Union. Within this sector, transport by land is the largest culprit, representing more than 70% of all GHG emissions associated with transport in 2016.

In 2018 regulations to distribute the drive were approved to guarantee new emission reductions in sectors outside the scope of the European Union's emission rights trading system for 2021-2030². 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,

² Regulation (EU) 2018/842 of the European Parliament and Commission, dated 30 May 2018, on binding annual reductions of greenhouse gases by member states between 2021 and 2030 that contribute to climate change, with the aim of meeting the commitments adhered to within the framework of the Paris Agreement and which amends Regulation (EU) 525/2013.

under the agreement reached, which maintains the distribution initially proposed by the European Commission.

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 26% of all emissions, according to the Provisional Results of the Greenhouse Gas Inventory for 2017 published in July 2018 by the Ministry of Ecological Transition (MITECO). 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 electric mobility, smart grids and energy efficiency.

The energy sector is partly responsible for climate change and will also be affected by its influence, as its consequences will affect the entire value chain, from generation to distribution.

Thus, ENDESA integrates these considerations not only in its environmental (and climate) management policy but also as a significant component of Company decision-making, by way of an internal adaptation project that contemplates both assessment of internal vulnerability to identify and prioritise climate components susceptible of generating risks for the Company's activity (generation and distribution) and evaluating future benefits and opportunities.

The conclusions of this project show that the risks to which the business lined would be subject to can be classified as low and very low, in addition to which they are expected to materialise slowly and in the future.

In any event, ENDESA has been working on this matter 2009, through numerous projects that include the analysis of aspects associated with adaptation to climate change, assessing the climate impacts on its facilities (a pioneer initiative for which the former Ministry of Agriculture and Fishing, Nutrition and the Environment (MAPAMA) (currently MITECO) selected the Company as the representative of the



energy sector for the ADAPTA I and II initiative; innovation in urban resilience versus climate change (RESCCUE), analysis of the implications of global change in the hydroelectric business and surrounding ecosystems, development of early warning systems versus climate change (ANYWHERE, included in the H2020 initiative of the EU), and the analysis and monetising of the effect of climate change on the integrity and operation of electricity distribution infrastructures.

4. Environmental management and 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 same applies to the environmental assessment or certification processes, resource used for the prevention of environmental risks, greenhouse gas emissions generated as a result of the company's activities, noise contamination, circular economy and other items, such as waste management and use of renewable energy. Therefore, these indicators are monitored in a consolidated manner, as are measures to preserve and restore biodiversity and impacts caused by activities and operations in protected areas, where the relevant impact is due to the activity of invested companies. Therefore, for further information see the chapter on Environmental Sustainability in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.

Human resources

1. Material aspects and objectives

1.1. List of material aspects

In 2018, 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 2018 materiality study.

Promotion of human capital: For ENDESA, its employees constitute the main company asset to create value in a sustainable manner. 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 essential to lead such change. Accordingly, ENDESA's employment priorities include management of diversity (especially gender and age), the management of cultural change, the availability of adequate work conditions, employment flexibility and meritocracy.

1.2. How the Organisation manages each material aspect – ENDESA's Sustainability Plan (PES)

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.

For further information regarding the level of compliance of ENDESA's 2018-2020 Sustainability Plan and the Human Resource objectives in the 2019-2021 Sustainability Plan, please refer to the chapter on Human Resources in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

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, the performance assessment and personal development processes guarantee professional advancement on the basis of merit and personal contribution.





Digital transformation means that the Company must adapt its value proposal to the new digital customer and adopt new technologies in its value chain. Therefore, one of the Company's most important challenges is the dissemination of this digital culture among its employees. In this regard, ENDESA is also working to promote the change of the organisational culture and the operating models.

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.

ENDESA rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA encourages and maintains 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 compliance with the values included in the ENDESA 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 implementing specific measures to promote non-discrimination and inclusion in the following areas of diversity, each of which has a defined plan of action:

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.

2.1. Leadership and talent development

ENDESA considers development of individuals as key to their personal and professional advancement, which has a direct effect on the success of the Company. This development also takes into account the various businesses and territories, adapting to the needs that may arise at a given moment. These actions are performed both for individuals and for teams.

In 2018, a group of 1,777 people were involved in various actions: courses (e.g. "Vamos" or "Gestor Coach"), Mentoring, Coaching (Individual or Team), Team Building, conflict resolution, and other development activities.

Gender	Nationality	Disability	Age
<ul style="list-style-type: none">> Gender equality in internal and external selection processes.> Agreements with technical universities.> Parental programme.	<ul style="list-style-type: none">> Tutoring programme for expatriates.	<ul style="list-style-type: none">> Identification of an internal reference (focal point).	<ul style="list-style-type: none">> Tutoring programme for new hires.> Transfer of knowledge between seniors and juniors.
Transversal			
<ul style="list-style-type: none">> Training courses and/or specific workshops about behaviour and values related to diversity and the inclusion.			

2.2. Diversity. Policy against all types of discrimination: Eliminating discrimination in employment and jobs, forced labour and child labour

ENDESA explicitly condemns child labour and forced labour through its code of ethics and is committed to strict compliance with international standards, such as the United Nations Global Compact. The aim is to enhance a work environment that respects Human Rights. Condemnation of child labour and forced labour is also explicitly set forth in ENDESA's Human Rights Policy, approved by its Board of Directors on 24 June 2013. Also worthy of mention is the fact that ENDESA operates in a geographical region (Spain and Portugal) with a regulatory framework that guarantees the absence of child and forced labour violations. ENDESA uses the most advanced prevention, control and monitoring mechanisms to guarantee compliance with current legislation, international standards and ILO principles in this matter. This issue has also been reviewed in the *due diligence* process on Human Rights carried out by ENDESA, the details of which can be found in Section 2 of the chapter on Human Rights. As a result, no complaints have arisen regarding this issue throughout 2018.

These conditions also hold true for all the companies that ENDESA has a contracting and supply relationship with. To ensure this, ENDESA includes human rights clauses in its general contracting conditions. Human rights aspects are assessed in the supplier assessment system and social audits are performed to verify compliance. For more information, please refer to the "Supply chain" chapter.

2.3. Digital disconnection policies

ENDESA is fully committed to the implementation of digital disconnection from work policies, among which are measures implemented for digital disconnection, given the impact of technology on the Company and its influence on the new methods of flexible work currently in practice. Thus, after the approval of Organic Law 3/2018 of 5 December on "Protection of Personal Data and guarantee of digital rights", ENDESA detected the need to take further steps in prevention and address new measures to reduce or mitigate cases of IT stress or fatigue as set forth in this recent legislation.

Noteworthy among the measures addressed in 2018 are employee training to facilitate the use of information technology tools and monitoring and application of the provisions in the collective standards of the Group, which regulate the use of these tools. In line with these actions and the recent legislation approved concerning digital rights guarantees, a more thorough digital disconnection policy is scheduled for development in 2019.

2.4. Training

ENDESA offers its employees training in order to equip and improve the technical qualifications they need to perform their duties, and to encourage the growth of attitudes and skills for their personal development. This offer is aimed at achieving compliance with the Company's strategic objectives and at promoting its values.

In 2018, 2,802 training sessions were held in which 8,395 employees participated. This activity enabled 370,416 hours of training to be given, reaching an average of 37.9 hours per employee.





3. Key performance indicators

3.1. Employees

3.1.1. Number of employees

ENDESA, S.A. workforce

Total Workforce	2016	1,391
	2017	1,360
	2018	1,287

3.1.2. Distribution of the workforce by gender, age, country and professional category

ENDESA is committed to diversity among its employees and believes that diversity is a fortifying factor for the Company. The figures presented below show the gradual increase of the number of women in the workforce, increasing their percentage in the total number of workers, which is important and shows the Company's firm commitment to gender diversity, in spite of all the difficulties that

this poses in the energy sector. This increase in diversity is especially notable, given the size of the workforce, its composition over time and the stable nature of labour relationships.

With regard to age, the data reflect a solid and safe company that combines senior staff with gradual renewal.

Workforce distribution by gender

Final workforce distribution of ENDESA, S.A.

		Number	%
Female	2016	712	51.2
	2017	695	51.1
	2018	654	50.8
Male	2016	679	48.8
	2017	665	48.9
	2018	633	49.2

Workforce distribution by age group

Workforce distribution by age

Year	<30	30-50	>50
2016	44	916	431
2017	48	894	417
2018	66	854	367

Distribution of the workforce by professional category

Distribution of the workforce by gender in Spain and Portugal %

	Executives		Middle management		Administration and Management staff		Manual workers	
	2017	2018	2017	2018	2017	2018	2017	2018
Male	80.5%	79.7%	51.0%	50.4%	33.1%	33.9%	0%	0%
Female	19.5%	20.3%	49%	49.6%	66.9%	66.1%	0%	0%

3.1.3. Employees with disabilities

ENDESA implements measures to foster the integration of people with disabilities, the details of which can be found in Section 3.6.4 of this document.

The Company has provided support for the 14 employees with disabilities in its workforce this year.

Contracted persons with disabilities

2016	24
2017	17
2018	14

3.1.4. Contracts; impact of the Company's activity on employment: New employees/ Staff turnover

Newly hired employees are an indicator reflecting ENDESA, S.A.'s role as a creator of employment. These figures are important, as they measure Company renewal and adaptation to new trends.

New recruitments of ENDESA, S.A.

2016	39
2017	40
2018	59

ENDESA, S.A. wishes to be an excellent company to work for; therefore its concentrated on low staff turnover as an indicator of the satisfaction of the people working in the Company. The employee turnover rate in Spain in 2018 was 10.80%, within the values expected by the Company.

3.1.5. Contract distribution

Number of employees	Full Time Contracts	Part Time Contracts
2016	1,391	0
2017	1,360	0
2018	1,287	0

Number of employees	Part time contracts	
	Male	Female
2016	0	0
2017	0	0
2018	0	0

Number of employees	Part time contracts per age group		
	<30	30-50	>50
2016	0	0	0
2017	0	0	0
2018	0	0	0





Number of employees	Part time contracts per professional category			
	Executives	Middle management	Administration and Management	Manual workers
2016	0	0	5	0
2017	0	0	4	0
2018	0	0	0	1

Percentage of Contracts (%)	Open-ended contracts		Fixed-term contracts	
	Male	Female	Male	Female
2016	48.8%	51.2%	50%	50%
2017	48.9%	51.1%	50%	50%
2018	49.2%	50.8%	48.5%	51.5%

Number of employees	Open-ended contracts			Fixed-term contracts		
	<30	30-50	>50	<30	30-50	>50
2016	28	907	430	16	9	1
2017	31	883	418	17	11	0
2018	46	841	367	20	13	0

Number of employees	Open-ended contracts				Fixed-term contracts			
	Executives	Middle management	Administration and Management	Manual workers	Executives	Middle management	Administration and Management	Manual workers
2016	137	822	405	1	0	19	7	0
2017	128	842	362	0	0	18	10	0
2018	128	823	303	0	0	17	16	0

3.1.6. Dismissals

No dismissals took place in 2018.

3.1.7. Measures adopted to promote employment

ENDESA fills in employment vacancies through internal mobility, but also carries out external contracting due to the degree of profile complexity and the growth of some of its lines of business.

Most new hiring is taking place in areas associated with the new energy model, in line with ENDESA's strategic commitment. To this end, it is hiring profiles that will develop renewable energies, electric mobility and technological profiles to face the digital transformation underway in the Company. Technical and sales profiles, as well as business developers are also very necessary for commercial expansion and the growth of new businesses, such as ENDESA X.

ENDESA promotes employment, especially among youth, through intern and grant programmes that are a source of recruitment of talent; it focuses especially on the employment of women as established in its gender diversity policy.

3.2. Remuneration of directors, managers and employees

3.2.1. Remuneration of Directors

See section 1.4. The remuneration of directors can be found in the Corporate Governance chapter in this document.

3.2.2. Remuneration of managers and employees

Average fixed remuneration of men in euros, in accordance with their professional category

Spain and Portugal		
Executives	2016	177,492
	2017	174,740
	2018	163,594
Middle management	2016	68,645
	2017	69,923
	2018	67,928
Administration and office workers	2016	53,717
	2017	52,197
	2018	48,464
Manual workers	2016	54,781
	2017	56,641
	2018	na
Average	2016	82,712
	2017	82,955
	2018	80,111

Average fixed remuneration of women in euros, in accordance with their professional category

Spain and Portugal		
Executives	2016	120,026
	2017	122,225
	2018	121,798
Middle management	2016	64,083
	2017	64,654
	2018	63,997
Administration and office workers	2016	49,480
	2017	49,403
	2018	48,064
Manual workers	2016	0
	2017	0
	2018	0
Average	2016	60,411
	2017	61,074
	2018	61,175

Average fixed remuneration (% of women's salary minus fixed remuneration of men)

Spain and Portugal		
Executives	2016	32.4
	2017	30.1
	2018	25.5
Middle management	2016	6.6
	2017	7.5
	2018	5.8
Administration and office workers	2016	7.9
	2017	5.4
	2018	0.8
Manual workers	2016	0
	2017	0
	2018	0
Average	2016	27
	2017	26.4
	2018	23.6

In 2018, taking into consideration fixed salaries, variable salaries and the social benefits, the ratio between salaries for women and men would be as follows:

	Male	Female	Salary gap ¹ Women vs. Men
Executives	221,855	158,027	28.8
Middle management	74,613	69,646	6.7
Administrative staff	49,669	49,815	-0.3
Manual workers	na	na	na
Average	94,215	66,787	29.1

¹ (1) This is the percentage by which women earn less than men, considering fixed salaries, variable salaries and social benefits, in compliance with Law 11/2018, dated 28 December.



To understand the inequality between salaries for women and men in ENDESA, the following factors should be taken into consideration: The industrial nature of the Company, low staff turnover, which impedes drastic variations in staff composition, and the distribution of genders in the Company over time, due to historical cultural and socio-demographic factors (lower number of women with access to university studies in the past, less presence of females in technical degrees, etc.), which results in a longer average tenure of men versus women. Other historical factors should also be mentioned, such as the conditions of original collective agreements.

Relationship between initial remuneration and minimum remuneration

	2017		2018	
	Female	Male	Female	Male
Initial remuneration	23,680.92	23,680.92	23,680.92	23,680.92
Minimum remuneration in Spain	9,906.40	9,906.40	10,302.6	10,302.6
Relationship between initial remuneration and minimum remuneration	2.39	2.39	2.30	2.30

3.3. Organisation of work

3.3.1. Organisation of working time

The annual workday is established by the terms set forth in ENDESA regulations.

The Company's Management and Corporate Representatives agree on the need to reduce overtime to an indispensable minimum by establishing work organisations tools and systems that permanently improve the Organisation's efficiency and in compliance at all times with current legislation and especially with the provisions of RD 1561/1995, dated 21 September. In the event that overtime becomes necessary, ENDESA contemplates the possibility of employees choosing between economic compensation or mixed compensation mechanisms (economic compensation and rest time).

In addition, in 2018 the human rights *due diligence* action plan included a specific communication to human resources managers to emphasise ENDESA's commitment with the reduction of overtime to the indispensable minimum. For more information, please refer to Section 3 of the Human Rights chapter.

3.3.2. Number of absentee hours

Rate of absenteeism of ENDESA. S.A. employees¹ (T.A.²)

	2016	2017	2018
Spain	2.55	2.22	2.04

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.

3.3.3. Measures intended to facilitate work-life balance

In 2018, 780 employees (307 men and 473 women) benefited from the initiatives to promote work-life balance in ENDESA.

To increase the commitment and satisfaction of the individuals working in the Company, ENDESA has continued to develop actions that actively enhance and promote its corporate values of responsibility, trust, proactivity and innovation. ENDESA has continued to encourage initiatives that favour flexible work and enable its employees to strike a balance between personal, family and professional life.

The measures taken by the Company to enable a fair work-life balance are divided into five large groups: job quality (open-ended contracts, pension plans, health and well-being, support for expats, etc.), work time and workspace flexibility (reduced working days, leaves, paid work leaves, etc.), family support (leaves, work leaves and work schedule flexibility to care for relatives, aid to dependent elderly persons, etc.), professional development (professional / technical / skill /language training, volunteer programmes, coaching, etc.) and equal opportunities (professional assistance for victims of gender violence, medical advice, etc.).

It should be mentioned that the “Work Outside the Office” modality has continued to be very successful throughout 2018. This initiative, aligned with promoting a work-life balance, also helps to build trust between the manager and employee and to value factors, such as flexibility, autonomy and responsibility for results. In all, 618 employees (246 men and 372 women) took part in this initiative in 2018.

Besides these measures, which are available for all the people at ENDESA, a series of services are available at the various work centres. Thus, during 2018, the “To Do room” was inaugurated in the Madrid headquarters. Open all hours, with online payment, it offers a host of services for employees in a single space. Specifically: clothing and footwear repairs, dry cleaning, laundry, financial advice, repair of mobile phones, tablets and computers. There is also an app that allows people to share the private vehicle

on their way to and from the office, e-sharing car service with a fleet of electric vehicles for professional use, cleaning and car repairs, yoga classes, pilates and maintenance gymnastics, nutritionist and travel agency.

In the Barcelona, Madrid and Seville offices, in order to favour women who have been mothers, the breastfeeding room service has continued to be offered. Thus, women working in these offices can use these facilities as a private, reserved area to extract breast milk after returning from their maternity leave.

3.4. Social relationships

3.4.1. Company management of the right of workers to be informed and consulted

ENDESA 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.

ENDESA complies with existing regulations and informs the Employees’ Representatives of any changes in the organisation and the Company at least 30 days in advance.

Just as it does periodically, the Company launched a survey on the work environment at the end of 2018. The Company uses this survey to identify areas for improvement on which to work to correct anything required.

Lastly, mention should be made of the regular meetings between the Chief Executive Officer and employees. This initiative is held every two months and attendees have the opportunity to report their concerns and suggestions directly to the CEO. Since the first occasion of this meeting in 2015, 45 persons from ENDESA, S.A. have participated, of which 18 attended in 2018.

ENDESA uses the corporate intranet to provide continuous updated information on its projects to its employees, as well as all Company policies. Information is also published regularly, two days a week in bulletins, as well





as an audiovisual summary of current events in the Company once a week. 100% of employees have access to these channels.

3.4.2. 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 a permanent dialogue with worker representatives, through which it seeks to establish and maintain collaboration that benefits both the Company and its employees.

There are various Company bodies that are available 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.

It should be noted that in 2018 ENDESA launched a mobility survey for its employees, within the framework of the Company's Sustainable Mobility Plan. A series of activities were conducted during the Diversity Days in November to generate awareness of ENDESA's Diversity and Inclusion Policy, which covers four main areas (nationality, gender, age and disability), as well as to encourage the integration of all groups.

The Human Resources area has a *Human Resources People Business Partner*, whose mission it is to provide close support, advice and counsel to employees.

3.4.3. 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 reorgani-

sation and corporate restructuring. Thus, regulations establish that these operations shall be made known to the Employees' Representatives at least 30 days before they come into effect.

3.4.4. 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, suppliers 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.

3.4.5. Percentage of employees covered by collective agreements

The number of ENDESA, S.A. employees at the close of 2018 was 1.287 persons, of whom 998 are covered by collective agreements, that is, 77.54% of the ENDESA, S.A. workforce. As regards ENDESA's independent contractors, 99.7% were covered by a collective labour agreement.

At ENDESA in Spain, on 27 December 2018, ENDESA's Fifth Collective Agreement was dissolved and closed. Hence, there has been no collective labour framework since 1 January 2019, and the conditions of all its employees have been contracted individually.

However, on 6 February 2019, all the parties involved agreed to reopen the negotiation process, as the Company expected to make real progress in reaching an agreement that adapts labour regulations to the new requirements of the work environment.

3.5. Training

3.5.1. Hours of training, broken down by gender and professional category

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. 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 at ENDESA, S.A.

Executives training	
2017	
Male	41.3
Female	50.8
2018	
Male	32.2
Female	38.8
Middle management training	
2017	
Male	55.2
Female	53.5
2018	
Male	33.6
Female	42
Administration and management personnel training	
2017	
Male	48.6
Female	37.3
2018	
Male	31.6
Female	27
Manual worker training	
2017	
Hombres	0
Mujeres	0
2018	
Male	0
Female	0

3.5.2. Employee training on Human Rights policies and procedures

An online *Human Rights* course intended for the entire workforce was conducted on the 70th anniversary of the Universal Declaration of Human Rights. The aim was to increase workforce knowledge of such a crucial issue and to inform about ENDESA initiatives to promote the respect for human rights.

A new section has been launched on the intranet, exclusively dedicated to human rights. The purpose is to promote the underlying social, civil and cultural values associated with respect and individual dignity and the community.

For further information regarding the key performance indicators as regards human rights training, see the chapter on Human Rights in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.

3.6. Equality

3.6.1. Explanation of the concepts of diversity and non-discrimination

The Diversity and Inclusion programmes fall within the framework of the Human Rights Policy approved by the Board of Directors of ENDESA, S.A. on 24 June 2013. Among the principles included in this policy are respect for diversity and non-discrimination. ENDESA rejects any form of discrimination and maintains its commitment to ensure that all its workers, both current and potential, are treated with respect toward their diversity and to promote equality of opportunities, both at the initiation of the labour relationship and at any stage in its 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.

All forms of discrimination: political, religious, national, ethical, racial, linguistic, gender or age-related are forbidden. ENDESA also rejects any form of personal discrimination for reasons of: beliefs, sexual orientation, syndicated affiliation 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 to be sought after and promoted. Equal treatment and opportunities will be guaranteed for all forms of diversity.

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 inclusion services, with no restrictions of access to any of the parties involved, whether employees, customers or contractors.

All these persons 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, sexual 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.

3.6.2. Explanation of how the Organisation manages diversity and non-discrimination

Within the policy of Diversity and Inclusion and the Company's Human Rights Policy, ENDESA rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities.

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, ENDESA has defined a gender action plan with two main goals in mind: to increase the presence of women in the Company and in positions of responsibility.

- 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.
- To promote participation and inclusion of female students, especially in technical studies or so-called *STEM* studies, Human Resources has established programmes and collaboration events with schools and high schools.
- ENDESA has developed a variety of initiatives to foster technological vocations: The *Girls in ICT* seminar was held in its head office in Madrid, in the month of May. Participating in the event were 55 girls between 14 and 16 years old and the aim was to show them the various tasks that can be performed in the digital field and the career options of the various technical fields of study.

Age: ENDESA's aim is to acknowledge, respect and manage the differences between generations, guaranteeing the integration, motivation and transfer of knowledge. The following initiatives have been put into practice to this end:

- A tutorial programme 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 *expertise* and *know-how* of *senior* employees acting as internal trainers is used for the development of younger employees.

Nationality: Another goal of ENDESA's Diversity and Inclusion Policy is to increase the acknowledgment, respect and integration of persons of different nationalities working in the Company. To this end, expats were assigned a tutor from the country of destination to assist and support them during the period they were abroad.

Disability: ENDESA has found a singular individual to manage all aspects associated with disabilities. This person provides 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 dealing with Diversity and Inclusion behaviours and values have been programmed. The Days of Diversity and Inclusion were held in November. A total of 10 activities took place in the offices of Madrid, Barcelona, Zaragoza and Seville. These were both awareness-raising and participatory activities, framed within the dimensions of the Diversity and Inclusion Policy of the Group (gender, age, disability and nationality).

3.6.3. Protocols for the prevention of sexual harassment

ENDESA has drawn up an action protocol to prevent sexual harassment which is automatically activated in the event of a complaint against sexual or workplace harassment.

3.6.4. Universal integration and accessibility of persons with disabilities

Throughout 2018, collaboration with the Adecco, Randstad, Prevent, Universia and Integra Foundations has continued to enhance the integration of persons with disabilities. Several initiatives associated with disabilities have been conducted in collaboration with these organisations, such as:

- Volunteer training activities intended for persons at risk of social exclusion, which includes persons with disabilities, victims of gender violence and long-term unemployed. In collaboration with the Integra Foundation.
- The Company has collaborated with the Prevent Foundation by supporting the grant programme for University and Advanced Degree Training for students with disabilities with the aim of enhancing equal opportunities in higher education and contributing to train qualified professionals for labour integration.
- Along with the Universia Foundation, ENDESA is a member of the Grant Awarding Committee for students with disabilities. These grants are funded in part by ENDESA donations.
- On occasion of the Days of Diversity and Inclusion, and in collaboration with the Adecco Foundation, an awareness seminar was held, hosted by Pablo Pineda: the first European graduate with Down Syndrome. An inclusive cooking workshop was also held to promote labour and social integration of these persons.
- The *Human Resources People Business Partner* from ENDESA's Human Resources Department provides support, advice and counsel to employees on all matters concerning disability to enhance their familiarity with





this issue. Training courses for Human Resources staff were conducted in 2018 to reinforce this effort and expand their knowledge about disabilities.

ENDESA has continued to take alternative measures along these lines by indirectly contracting the purchase of goods and service from special employment agencies. These purchases totalled Euros 796.371.22.

3.6.5. Cases of discrimination and corrective measures taken

In 2018, there were no cases of discrimination at ENDESA, a fact which the Company periodically reports to its employee representatives.

Occupational health and safety

1. Material aspects, action plans, objectives and results

1.1. List of material aspects

In 2018, 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 2018 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. How the Organisation manages each material aspect. Results of ENDESA's 2018-2020 Sustainability Plan (PES)

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 of ENDESA's 2018-2020 Sustainability Plan and the Health and Safety objectives in the 2019-2021 Sustainability Plan, please refer to the chapter on Health and Safety in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.



2. Occupational health and safety policy

ENDESA 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 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.

In its long-term strategy, ENDESA carries out various annual initiatives of continuous improvement of Health, Safety and Well-being. It is noteworthy to mention that these were again focused on the basic foundations of the Company's preventive activities, resulting from the proper integration of all agents involved and specific organisational units that make up our safety system. Although not a complete list of the initiatives carried out, these include the following: observation and control of the activity to identify and manage all risks appropriately (paying special attention to psycho-social factors), detection of areas for improvement in our activity or equipment / installations, analysis of any and all incidents, even when personal injuries were not involved, development, innovation and application of improvements in equipment, technologies and work procedures, continuing to work

on related matters with our collaborating companies and evidently investing in the training, participation and querying of workers, as well as in awareness campaigns and workshops.

3. Key performance indicators

3.1. Occupational accidents, their frequency and severity, and occupational diseases per gender

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			Severity rate ³		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
SPAIN	4	5	6	1.01	1.26	1.39	0.02	0.08	0.05
In-house	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00
Contractors	4	5	6	2.42	3.07	2.84	0.05	0.20	0.11

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.

	No. of occupational accidents ¹					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	3	1	3	2	4	2
In-house	0	0	0	0	0	0
Contractors	3	1	3	2	4	2

¹ Includes fatal accidents.

	Frequency index ²					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	1.53	0.50	1.55	0.99	1.89	0.91
In-house	0.00	0.00	0.00	0.00	0.00	0.00
Contractors	3.66	1.20	3.76	2.41	3.85	1.86

² Total number of accidents, excluding those in itinere, with respect to the total number of hours worked, multiplied by 1.000.000.

	Severity rate ³					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	0,01	0,01	0,15	0,01	0,08	0,01
In-house	0,00	0,00	0,00	0,00	0,00	0,00
Contractors	0,07	0,03	0,37	0,02	0,17	0,01

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.

Days lost by endesa employees due to absence during the year at ENDESA, S.A.			
	2016	2017	2018
Spain	8,078	7,644	5,737

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.

	Fatal accidents			Serious accidents			Non-serious accidents		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
SPAIN	1	0	0	0	1	0	3	4	6
In-house	0	0	0	0	0	0	0	0	0
Contractors	1	0	0	0	1	0	3	4	6

	No. of fatal accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	1	0	0	0	0	0
In-house	0	0	0	0	0	0
Contractors	1	0	0	0	0	0

	No. of serious accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	3	1	3	2	4	2
In-house	0	0	0	0	0	0
Contractors	3	1	3	2	4	2

	No. of non-serious accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
SPAIN	2	1	2	2	4	2
In-house	0	0	0	0	0	0
Contractors	2	1	2	2	4	2





Customers

1. Material aspects and objectives

1.1. List of material aspects

ENDESA is aware of the need to make advances in products and services adapted to the needs of each customer. This is why it is working on developing customer digital experience with new value proposals, new ways and channels of customer relationships and new business models.

Consumer access to new technologies and their use in mass has transformed the customer. This has resulted in new consumer habits and customs in their personal and professional lives and evidently in their relationships with companies. Most consumers are or will be digitally and socially connected customers.

Considering that 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 main challenges facing the company is the development of a digital culture that enables learning the necessary skills to lead the transformation successfully.

1.2. How the Organisation manages each material aspect. ENDESA's 2018-2020 Sustainability Plan (PES)

ENDESA includes these priorities in its sustainability plans and sets quantitative goals focused on the customer, in order to assess the level of commitment and performance achieved.

For further information regarding the level of compliance of ENDESA's 2018-2020 Sustainability Plan and the Customer Resource objectives in the 2019-2021 Sustainability Plan, please refer to the chapter on Customers in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

In ENDESA, complaints are centrally managed by the Complaint Service Unit (UAR) by the persons who work in the six Territorial Units (UTR). Their primary tasks consist in:

- Ensuring customer satisfaction with the management of their complaints
- Detecting the underlying causes of disturbance to normal commercial activity
- Defining the measures needed to correct these and improvements in the management systems

- Seeking cost-efficiency when resolving complaints
- Resolving complaints in the shortest time possible
- Acting as spokespersons with public or private consumer protection agencies
- Intervening in social networks in the event of joint complaints submitted in these

Throughout 2018, the Company has worked on the development of complaint digitalisation to achieve the highest management cost-efficiency and shortest possible average resolution times for customers.

The main digitalisation project was the Complaint Classifier, which analyses customer comments when a complaint is opened, classifies the complaint according to category and sends the corresponding team to resolve it.

The volume of complaints in 2018 was 436.578, an increase of 6% over the previous year. However, the volume of requests was 459.562, 19.5% less than in 2017.

The overall number of requests and complaints reached a total of 903.278, of which 101.77% of complaints and 99.88% of requests were resolved. Thus, more complaints than those received were resolved, since some were pending, and 0.12% of requests remain pending resolution.

Despite launching the Complaints Classifier, the period for resolution of incidents and changes in systems in 2018 increased to an average of 11 days, compared to 8.5 in 2017.

As regards processes, the implementation of the Social Bonus has increased the number of interventions on billing and rate changes of customers who updated their supply address to request the Social Bonus. Also worthy of mention is the reduction in customer requests for payment agreements and power costs due to the improvement of the economic scenario in 2018. It should be noted that part of the complaint services are carried out through ATC channels that intervene directly with the customer to resolve the complaint and that when this initial intervention is not successful, the complaint passes to resolution teams, including sales cycle teams that also provide complaint services.

3. Consumer health and safety protection measures

ENDESA complies with current legislation on the safety of persons, both as regards its workers and the population in general, in all its facilities:

- High and medium voltage installations are inspected every three years for safety and suitability.
- Facilities connected to HV/HV and HV/MV distribution substations are equipped with protection to isolate any malfunction that may occur.
- MV lines are equipped with intermediate protective measures, such as lightning rods and automatic valves to prevent overvoltage caused by atmospheric discharges.
- MV/LV transformation centres and LV lines have similar safety equipment.
- As regards mains supply connections, the link-up installations are equipped with their corresponding protective devices, in fulfilment of current regulatory requirements.

As regards health of the population, ENDESA shares the concern of other electricity sector operators and society in general about the potential effects of the magnetic fields generated by its installations. In this regard, a range of technical verifications are carried out and modifications are made if necessary to ensure that operations do not generate health incidents in the population.

At ENDESA, all the products and services delivered to its customers fulfil current regulations, including those that refer to health. Furthermore, ENDESA stays continuously updated with the latest studies in this matter and actively participates in electricity sector forums to contribute its knowledge and initiatives (technical, constructive, operational, etc.) in the prevention of health risks associated with these causes.



Responsible relationship with the communities

1. Material aspects and objectives

1.1. List of 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 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, 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 2018 with its most significant stakeholders revealed the following primary aspects associated with management of the local communities: facilitate access to electricity of vulnerable groups, promote economic and social development of communities by focusing on employment as the main resource for empowerment and provide support for local communities at both the social and environmental levels.

1.2. Explanation of how the Organisation manages each material aspect. ENDESA's 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.

For further information regarding the level of compliance of ENDESA's 2018-2020 Sustainability Plan and the Health and Responsible Community Relationships objectives in the 2019-2021 Sustainability Plan, please refer to the

chapter on Responsible Community Relationships in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2018.

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 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 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.

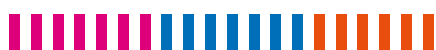
3. Operations with participation in the local community, impact assessments and development programmes

3.1. Shared value creation model

Since 2016, ENDESA has been immersed in the process to implement its Shared Value Creation Approach as a tool to integrate sustainability in its business strategy and operations. The model is currently implemented at various stages in 100% of the facilities in the Operation and Maintenance phase of both thermal and renewable energy generation, as well as in all the new construction projects of wind and solar farms that cover the power supply awarded in the last two tenders held in 2017.

At the close of 2018 and from greater to lesser degree of implementation, there are 11 generation facilities in the execution stage of the CSV Plan, 13 facilities in the design stage of the Plan in conjunction with local stakeholders and 9 facilities in the stage of contrasting analyses with local stakeholders. The rest of the facilities (232) have undergone application of the basic tools of local environment analysis, identification of the key priorities, risks, impacts and stakeholders related with the business asset/project.

As a result of these activities, there were 105 meetings with Town Councils, public agencies, social agents, etc. in 2018 to integrate, contrast and mark priorities for local needs and generate channels for dialogue and participation in shared value creation. Two early communication workshops were also conducted to inform on CSV methodology, its application and main objectives. Other information meetings were also held with local stakeholders on specific subjects (energy efficiency, new social bonus, etc.).





3.2. Future Plans in Compostilla and Teruel

ENDESA maintains its firm commitment to decarbonisation of society, which lead to its public commitment in 2016 to Sustainable Development Goal 13, which entails 100% decarbonisation of its energy mix by 2050 and a road map with clear goals for 2020, 2030 and 2040, as explained throughout this document. This commitment is found in both its 2019-2021 Strategic Plan and its 2019-2021 Sustainability Plan, which include an increase in production from renewable energy sources, an increase in production of CO₂-free energy, a reduction in absolute and specific CO₂ emissions and goals to reduce installed thermal generation (See the chapter on ENDESA Group Organisation, Section 1.8 and the chapter on Environmental Sustainability).

This commitment to reduce thermal generation is specifically included in the 2019-2021 Strategic Plan announcement of the closure of the Compostilla and Teruel plants in 2020. On 19 December, ENDESA formally requested the closure of both plants.

In line with its commitment to local communities and responsible management of the closure of the Compostilla and Teruel plants, ENDESA voluntarily submitted Plans for the Future along with the requests for closure to promote development of economic activities and job creation in the areas where the two plants are located, and remains open to the flexible inclusion of new feasible initiatives that may be proposed in the future to achieve these goals.

Within the framework established in the Plans for the Future, ENDESA will respect the jobs of all the employees of the two plants and attempt to minimise their geographical mobility. The Company will attempt to prioritise contracts for auxiliary companies to take on the tasks of closing and

dismantling both plants, as well as to develop the new renewable facilities that it proposes to install in the corresponding areas. The closure and dismantling work will run over a long period of time, currently estimated at between 4 and 6 years and will generate around 130 jobs, with occasional peaks of 200, in each location.

The Company's Plans for the Future also include large investments in new renewable energy projects. Specifically, ENDESA intends to develop up to 1.000 MW of new photovoltaic solar capacity in the Andorra plant area, which will require an investment of Euros 800 million and must be added to the 513 MW from wind farms intended for Aragon at an investment of Euros 500 million.

As regards the Compostilla plant, the Company is studying photovoltaic projects with a capacity of 300 MW in the Villameca area, in addition to 20 MW of wind power to cover the power awarded to the Company in the last two tenders. In all, this represents an investment of Euros 260 million in the area.

Furthermore, the facilities included in the Plans for the Future will provide the corresponding towns with significant resources by way of taxes and fees, as well as high amounts of revenue from rent paid to the owners of the land where these projects will be developed.

Within this Plan, the Company also intends to promote a programme so companies, institutions and other public and private agencies can present feasible alternatives through a participatory, transparent and open process to search for investment and job generation projects at the location of both plants or their immediate surroundings. This programme, which will be developed with utmost involvement of regional and local agents will allow any interested party to present a reconversion project. These projects will be assessed by an independent committee that will also include significant representation of regional and local agents.

4. Key performance indicators

4.1. Assessment of management focus. Results of our social objectives

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 Euros 14 million. The end result of ENDESA's social contribution in 2018 rose 1.4% on the previous year.

For further information regarding the key performance indicators in the local community relationship area, see the chapter on Local Community Relationships in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.





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 2018 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 “Sustainable Supply Chain” project are not only aimed at assessing the occupational health and safety parameters, but also include environmental and ethical management criteria and respect for human rights.

1.2. How the Organisation manages each material aspect – ENDESA’s Sustainability Plan (PES)

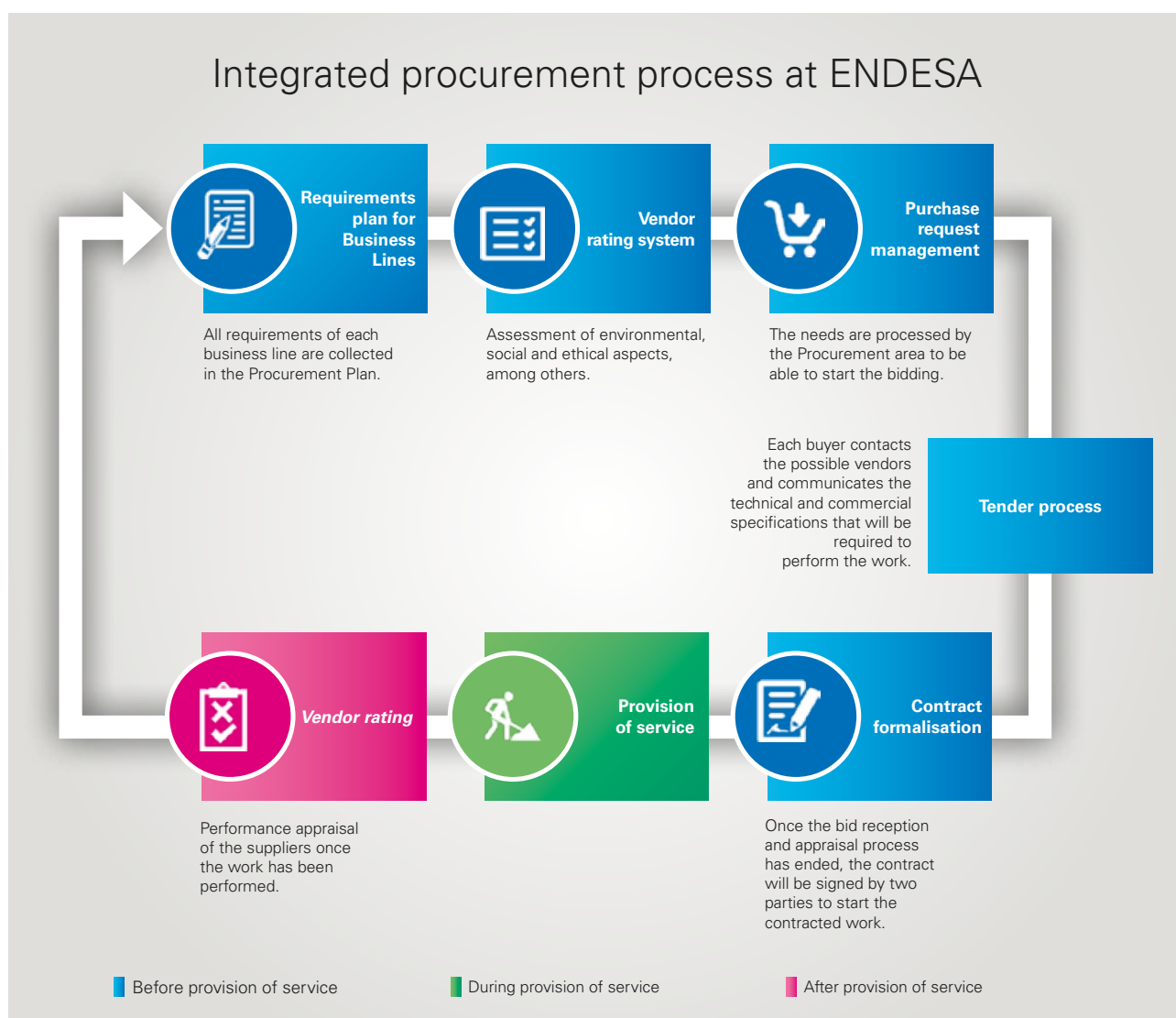
In the ENDESA Sustainability Plan, ENDESA, S.A. establishes the overall corporate objectives to promote the responsible management of its supply chain, incorporating occupational health and safety, environmental and respect for human rights objectives in this regard.

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. For further information see the chapter on the Supply Chain in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.

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. As an additional requirement for sustainability in occupational health and safety, in the second half of 2018 it became mandatory for suppliers to complete the SHE 365 safety questionnaires to receive ratings. This represents a more thorough analysis of company standards regarding safety and the environment.





3. Supplier rating policy according to social criteria, labour relations, human rights, gender equality and environmental criteria

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 2018 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 2018, accounted for 80.3% 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 entered into force in April 2017, and apply to the entire base of suppliers rated in families that require it 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 2018, the supplier rating system had been implemented in 194 purchasing families, 134 global families (international rating), and in 60 local families at ENDESA.

In 2018, 100% of ENDESA's newly rated suppliers 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.

For more information on supplier selection policies according to social, labour relations, human rights, gender equality and environmental criteria and on the policy regarding local suppliers and the measures taken to apply international labour covenants in the supply chain that ENDESA manages centrally, as mentioned above, for all its companies, see the chapter on the Supply Chain in the Non-Financial Statement included in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2018.

Table of contents required by Law 11/2018, dated 28 December, on non-financial information and diversity

Contents of the Non-Financial Statement	Contents in Law 11/2018	Reporting framework
ORGANISATION		
1. Business model for the management and organisation of Company activities	Description of the business model	GRI 102-1 to 102-6
1.1. Name of the organisation	Organisation	GRI 102-7
1.2. Activities, brands, products and services	Structure	GRI 102-2
1.3. Location of the registered office		GRI 102-3
1.4. Location of operations	Business environment	GRI 102-4
1.5. Criteria for the preparation of the Non-Financial Statement	Reporting framework	Based on the Global Reporting Initiative (GRI Standards) and its "Electric Utilities Sector Supplement"
1.6. Ownership and legal form	Organisation and structure	
1.7. Markets supplied	Markets where it operates	GRI 102-7
1.8. 2019-2021 Strategic Plan; Objectives and Strategy	Objectives and Strategy	GRI 102-14, 102-15
1.9. Factors and trends that may affect our progress in the future	Primary factors and trends that can affect its progress in the future	GRI 102-15
2. ENDESA dimensions		GRI 102-7
2.1. ENDESA in figures	Financial assistance. Public subsidies received Contributions to foundations and non-profit organisations	GRI 201-4
2.2. Tax information by country	Taxes paid on income	GRI 201-1, 201-4
3. Significant organisational changes	Organisation and structure	GRI 102-10
4. Commitment to a sustainable energy model	Objectives and Strategy	GRI 102-14, 102-15
5. Dialogue with the stakeholders	Social dialogue	GRI 102-43
6. Materiality study: Identification of priorities based on dialogue with stakeholders	Key non-financial result indicators that are pertinent to the specific business activity and comply with the criteria of comparability, materiality, relevance and reliability	GRI 102-21, 102-46, 102-47
7. ENDESA's Sustainability Plan	Company committed to sustainable development	GRI 103-1 103-2





Contents of the Non-Financial Statement	Contents in Law 11/2018	Reporting framework
RISK MANAGEMENT		
1. Risk control and management policy	Risk policy. Significant risks and impacts and their verification and control	GRI 103-1
2. Criminal regulatory and anti-bribery compliance policy	Risk policy. Significant risks and impacts and their verification and control	GRI 103-1
3. Main sustainability risks - Impacts, risks and opportunities related to environmental and social matters	Main risks associated with the Group's activity. Short-, medium- and long-term risks Prevention of risks of violating human rights and measures to mitigate, manage and repair possible abuses	GRI 102-15
RESPECT FOR HUMAN RIGHTS		
1. Human rights policy at ENDESA	Human rights policy	GRI 103-1, 103-2
2. The due diligence process	Due diligence processes	GRI 102-16, 102-17, 412-2
3. Complaints regarding violation of human rights. Cases of discrimination and corrective measures taken	Complaints regarding violations of human rights	GRI 102-16, 102-17, 406-1, 412-2
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	Remuneration of directors	GRI 102-22, 102-24, 102-24, 405-1
FIGHT AGAINST CORRUPTION AND BRIBERY		
1. Material aspects and objectives	Measures adopted to prevent corruption and bribery	GRI 103-1, 103-2, 103-3
2. Policies implemented by the company regarding corruption and bribery	Measures adopted to prevent corruption and bribery	GRI 102-16, 102-17
2.1. Code of Ethics	Measures adopted to prevent corruption and bribery	GRI 415-1, 103-1, 103-2, 103-3
2.2. Zero Tolerance Plan against Corruption	Measures adopted to prevent corruption and bribery	GRI 103-1
2.3. Anti-bribery policy (GRI Focus on anti-corruption management)	Measures adopted to prevent corruption and bribery	GRI 103-1, 103-2, 103-3
2.4. Criminal Risk Prevention Model	Measures adopted to prevent corruption and bribery	GRI 103-1, 103-2, 103-3
3. Cases of corruption complaints and corrective measures taken	Measures adopted to prevent corruption and bribery Measures to combat money-laundering	GRI 205-3
4. Measures to combat money-laundering	Measures to combat money-laundering	GRI 102-16, 102-17
ENVIRONMENTAL SUSTAINABILITY		
1. Material aspects and objectives	Medium and long-term goals to reduce greenhouse gases	GRI 103-1, 103-2, 103-3
2. Environmental policy	Description of the policies applied by the Group in these matters	GRI 103-2
3. Business model: Fight against climate change	Measures taken to adapt to the consequences of climate change	GRI 102-15
4. Environmental management and key performance indicators	Contamination: Emissions – Important elements of greenhouse gas emissions generated as a result of the company's activities, including the use of the good and services it produces – Measures to prevent or reduce emissions that affect air quality. – Sustainable use of resources: Water consumption, raw materials consumption, direct and indirect consumption of energy, measures taken to improve energy efficiency – Noise contamination – Circular economy and prevention and waste management – Measures for prevention, recycling, reuse and other forms of waste recovery and disposal – Use of renewable energies – Measures taken to preserve or restore biodiversity – Impacts caused by activities or operations in protected areas	GRI 102-15 GRI 103-1, 103-2, GRI 307-1, Internal framework: The total of millions of euros invested in environmental activities has been taken into account GRI 305-1, 305-2, 305-3, 305-5, 305-7, GRI 302-1a, 302-2, 302-3, 302-4, 303-3, 303-5, GRI 307-1, GRI 306-2, GRI 302-1, GRI 304-2, 304-3

Contents of the Non-Financial Statement	Contents in Law 11/2018	Reporting framework
HUMAN RESOURCES		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1,103-2, 103-3
2. Human capital policy	Description of the policies applied by the Group in these matters	GRI 103-2
2.1. Leadership and talent development	Description of the policies applied by the Group in these matters	GRI 103-2
2.2. Diversity. Policy against all types of discrimination	Equality Policy. Eliminating discrimination in employment and jobs, forced labour and child labour	GRI 103-1,103-2, 103-3
2.3. Digital disconnection policies	Disconnection from work policies	GRI 103-1,103-2, 103-3
2.4. Training	Training policy	GRI 103-1,103-2, 103-3
3. Key performance indicators		
3.1. Employees	Social and staff-related affairs	GRI 102-8, 405-1, 401-1
3.1.1. Number of employees	Total number	GRI 102-8, 405-1, 401-1
3.1.2. Workforce distribution	Distribution of employees by gender, age, country and professional category	GRI 102-8, 405-1, 401-1
3.1.3. Employees with disabilities	Employees with disabilities	GRI 405-1
3.1.4. Contracts; impact of the Company's activity on employment	Contract types	GRI 102-8
3.1.5. Contract distribution	Fixed-term and part time contracts by gender, age, country and professional category	GRI 102-8
3.1.6. Dismissals	Number of dismissals by gender Number of dismissals by age Number of dismissals by professional category	Internal framework: Total number of disciplinary dismissals during the year, broken down by gender, age and professional category
3.1.7. Measures adopted to promote employment	Measures to promote employment	GRI 103-1,103-2, 103-3
3.2. Remuneration of directors, managers and employees	Average remuneration and over time, broken down by gender, age and professional category. Salary gap Average remuneration of directors (including variable remuneration, per diems, compensation, payment to long-term pension systems and any other amount received by gender Average remuneration of managers (including variable remuneration, per diems, compensation, payment to long-term pension systems and any other amount received by gender	GRI 405-2 Internal framework: Average fixed remuneration: % of women's salary minus fixed remuneration of men. The salary gap has taken into account fixed salaries, variable salaries and social benefits
3.3. Organisation of work	Organisation of working time. Number of absentee hours. Measures intended to facilitate enjoyment of work-life balance	GRI 403-2
3.4. Social relationships	Organisation of social dialogue, including procedures to inform and consult with staff and negotiate with them. Percentage of employees covered by collective agreements per country	GRI 402-1, 403-1, 403-4, 102-41
3.5. Training	Policies implemented in the training sphere. Total number of training hours by professional category	GRI 404-1, 412-2
3.6. Equality	Measures adopted to promote equal treatment. Equality plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality of women and men), measures adopted to promote employment, protocols to prevent sexual harassment Protocols for the prevention of sexual harassment. Universal integration and accessibility of persons with disabilities	GRI 103-1
OCCUPATIONAL HEALTH AND SAFETY		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1,103-2, 103-3
2. Occupational health and safety policy	Health and safety conditions	GRI 414-1
3. Key performance indicators	Occupational accidents by gender Frequency and severity by gender Professional diseases by gender	GRI 403-9, 403-10





Contents of the Non-Financial Statement	Contents in Law 11/2018	Reporting framework
CUSTOMERS		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1, 103-2, 103-3
2. Complaint and complaint-solving system	Claims, complaints received and resolutions	GRI 103-1, 103-2, 103-3, 418-1
3. Consumer health and safety protection measures	Consumer health and safety protection measures	GRI 103-1, 103-2, 103-3, 416-1
RESPONSIBLE RELATIONSHIP WITH THE COMMUNITIES		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1, 103-2, 103-3
2. Relationship policy with local communities	Description of the policies applied by the Group in these matters	GRI 103-2
3. Operations with participation in the local community, impact assessments and development programmes	Impact of the company's activity on local populations and the territory. Relationships with the players in local communities	GRI 413-1, 413-2
4. Key performance indicators	Employment and local development	
	– Impact of the company's activity on local populations and the territory.	GRI 413-1, 413-3
	– Contributions to foundations and non-profit organisations	GRI 203-1, 102-12, 102-13
	– Association, collaboration or sponsorship activities	GRI 201-4 GRI 204-1
SUPPLY CHAIN		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1, 103-2, 103-3
2. Description of the supply chain and significant changes therein	Consideration of their social and environmental responsibility in relationships with suppliers.	GRI 102-9, 102-10
3. Supplier selection policy according to social criteria, such as labour relations, human rights, gender equality and environmental criteria	Inclusion of social, equality and environmental matters in the purchases policy. Supervision and audit systems	
	– Impact of the Company's activity on employment and local development. – Promotion and compliance with the provisions of essential ILO agreements associated with the respect of freedom of association and the right to collective negotiation.	GRI 103-2 GRI 204-1 GRI 407-1, 408-1, 409-1, 414-1, 308-1
AUDITOR'S REVIEW		GRI 102-56

Independent verification report on the Non-Financial Statement

ENDESA, S.A.

Independent Verification Report on the ENDESA, S.A. Non-Financial
Statement for the year ended 31 December 2018



Independent Limited Assurance Report of the Non-Financial Statement
for the year ended December 31, 2018

ENDESA S.A.



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Translation of a report originally issued in Spanish. In the event of discrepancy,
the Spanish-language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT OF THE NON-FINANCIAL STATEMENT

To the Shareholders of ENDESA, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018, of ENDESA S.A., which is part of the Director's Report of ENDESA, S.A.

Responsibility of the Directors

The Board of Directors of ENDESA, S.A. is responsible for the approval and content of the NFS included in the Director's Report of ENDESA, S.A. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the section: "Table of contents required under Law 11/2018 of December 28 on disclosure of non-financial and diversity information", included in the aforementioned Statement.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

ENDESA, S.A. administrators are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

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 is based on the fundamental principles of integrity, objectivity, professional competence, diligence, confidentiality and professionalism.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

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Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, that refers exclusively to 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the Guide for Non-Financial Statement verification engagements, issued by the Spanish Institute of Chartered accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various ENDESA, S.A. units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- ▶ Meeting with ENDESA, S.A. personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- ▶ Analyzing the scope, relevance and integrity of the content included in the NFS based on the materiality analysis made by the ENDESA, S.A. and described in the section "The Organization of ENDESA S.A.", considering the content required by prevailing mercantile regulations.
- ▶ Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.
- ▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.
- ▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS and its correct compilation from the data provided.
- ▶ Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the 2018 NFS of ENDESA, S.A. has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the section: "Table of contents required under Law 11/2018 of December 28 on disclosure of non-financial and diversity information", included in the aforementioned Statement.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)


Alberto Castilla Vida

February 25, 2019

The Management Report of **ENDESA, Sociedad Anónima** for fiscal year ending December 31, 2018, as provided herein, was drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 25, 2019** 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, 25 February 2019

An aerial photograph of a busy city street, likely Times Square in New York City, viewed from directly above. The image is overlaid with a series of vertical stripes that alternate between a vibrant blue and a textured brown. These stripes run the entire length of the image, creating a rhythmic pattern. People are seen walking across the street, their figures and shadows cast onto the pavement. The perspective is from a high angle, looking down on the scene. The text 'ENDESA, S.A. and subsidiaries' is positioned in the lower-left corner, partially overlapping the stripes.

ENDESA, S.A.
and subsidiaries



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Audit Report

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, 2018



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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, 2018, 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, 2018 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.

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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	<p>At year-end 2018, the Group recognized property, plant, and equipment under non-current assets in the amount of 21,840 million euros, intangible assets totalling 1,355 million euros, and goodwill amounting to 479 million euros.</p> <p>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.</p> <p>The Group applied the following key criteria, hypotheses and judgments: 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.</p> <p>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.</p>
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Our response Our audit procedures include, among others, the following:

- ▶ 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.
- ▶ 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 and using renowned external sources and other available information to contrast data.
- ▶ 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	<p>At year-end 2018, the Group recognized 896 million euros and 429 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. We consider this to be a key audit matter due to 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.</p>
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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:

- ▶ Understand Group criteria and procedures used to estimate billed sales, including assessment of the design and implementation and the effectiveness of relevant controls.
- ▶ 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.
- ▶ Perform 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 totalling 635 million euros, of which 611 million euros are recognized as non-current and 24 million euros 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:

- ▶ Understand the processes applied by Group Management to estimate provisions, including assessment of the design and implementation of relevant controls.
- ▶ Obtain confirmation letters from the internal and external legal advisors of the Group.
- ▶ Involve our internal legal specialists to analyze the reasonableness of the conclusions reached by Group Management.
- ▶ Review disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

Other information: consolidated management report

Other information refers exclusively to the 2018 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 2018 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:

- ▶ 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.
- ▶ 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Parent Company.
- ▶ 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.
- ▶ 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.
- ▶ 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 25, 2019.

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)

Ólatz Díez De Artazcoz Herreros

February 25, 2019

Consolidated Financial Statements

for the year ended 31 December 2018

(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 2018 and 2017

Millions of euros

	Notes	31 December 2018	31 December 2017
ASSETS			
NON-CURRENT ASSETS		26,001	25,507
Property, plant and equipment	6	21,840	21,727
Investment property	7	62	9
Intangible Assets	8	1,355	1,196
Goodwill	10	479	459
Investments Accounted for using the Equity Method	11.1	249	205
Non-current Financial Assets	19	858	769
Deferred Tax Assets	22.1	1,158	1,142
CURRENT ASSETS		5,655	5,530
Inventories	12	1,473	1,267
Trade and Other Receivables	13	2,955	3,100
Trade Receivables		2,782	2,877
Current Income Tax Assets		173	223
Current Financial Assets		983	764
Cash and Cash Equivalents	14	244	399
Non-current Assets Held for Sale and Discontinued Operations		—	—
Total ASSETS		31,656	31,037
EQUITY AND LIABILITIES			
EQUITY	15	9,181	9,233
Of the Parent	15.1	9,037	9,096
Share capital		1,271	1,271
Share Premium and Reserves		7,157	7,155
Profit for the Period of the Parent		1,417	1,463
Interim dividend		(741)	(741)
Valuation Adjustments		(67)	(52)
Of the non-controlling interests	15.2	144	137
NON-CURRENT LIABILITIES		14,781	14,269
Deferred income	16	4,587	4,730
Non-current Provisions	17	3,325	3,382
Provisions for pensions and similar obligations	17.1	989	951
Other Non-current Provisions		2,336	2,431
Non-current Interest-Bearing Loans and Borrowings	18	4,975	4,414
Other Non-current Liabilities	21	757	646
Deferred Tax Liabilities	22.2	1,137	1,097
CURRENT LIABILITIES		7,694	7,535
Current Interest-Bearing Loans and Borrowings	18	1,046	978
Current Provisions	24	571	425
Provisions for pensions and similar obligations		—	—
Other Current Provisions		571	425
Trade Payables and Other Current Liabilities	23	6,077	6,132
Suppliers and other Payables		5,918	5,962
Current Income Tax Liabilities		159	170
Liabilities Associated with Non-current Assets Classified as held for Sale and Discontinued Operations		—	—
Total EQUITY AND LIABILITIES		31,656	31,037

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 2018 and 2017.

ENDESA, S.A. and Subsidiaries

Consolidated Income Statements

for the years ended 31 December 2018 and 2017

Millions of euros

	Notes	2018	2017
INCOME	25	20,195	20,057
Revenue	25.1	19,555	19,556
Other operating income	25.2	640	501
PROCUREMENTS AND SERVICES		(14,567)	(14,569)
Power Purchases	26.1	(4,784)	(4,933)
Fuel consumption	26.2	(2,269)	(2,294)
Transport Costs		(5,463)	(5,652)
Other variable procurements and services	26.3	(2,051)	(1,690)
CONTRIBUTION MARGIN		5,628	5,488
Self-constructed Assets	3a and 3d.3	270	222
Personnel Expenses	27	(947)	(917)
Other Fixed Operating Expenses	28	(1,324)	(1,251)
GROSS PROFIT FROM OPERATIONS		3,627	3,542
Depreciation and amortisation, and impairment losses	29	(1,708)	(1,511)
PROFIT FROM OPERATIONS		1,919	2,031
NET FINANCIAL PROFIT/(LOSS)	30	(139)	(123)
Financial income		36	51
Financial expense		(173)	(178)
Net Exchange Differences		(2)	4
Net Profit/(Loss) of Companies Accounted for using the Equity Method	11.1	35	(15)
Gains/(Losses) from Other Investments		—	—
Gains/(losses) on Disposal of Assets	31	3	7
PROFIT/(LOSS) BEFORE TAX		1,818	1,900
Income Tax Expense	32	(392)	(427)
PROFIT AFTER TAX FOR THE PERIOD FROM CONTINUING OPERATIONS		1,426	1,473
PROFIT AFTER TAX FOR THE PERIOD FROM DISCONTINUED OPERATIONS		—	—
PROFIT FOR THE YEAR		1,426	1,473
Parent Company		1,417	1,463
Non-controlling interests	15.2	9	10
BASIC NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		1.34	1.38
DILUTED NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		1.34	1.38
BASIC NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		—	—
DILUTED NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		—	—
BASIC NET EARNINGS PER SHARE (Euros)		1.34	1.38
DILUTED NET EARNINGS PER SHARE (Euros)		1.34	1.38

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 2018 and 2017.





ENDESA, S.A. and Subsidiaries

Consolidated Statements of Other Comprehensive Income

for the years ended 31 December 2018 and 2017

Millions of euros

	Notes	31 December 2018			31 December 2017		
		Of the Parent	Of the non-controlling interests	Total	Of the Parent	Of the non-controlling interests	Total
PROFIT FOR THE YEAR		1,417	9	1,426	1,463	10	1,473
OTHER COMPREHENSIVE INCOME:							
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		14	—	14	165	—	165
Items that can be Reclassified to Profit or Loss:		43	—	43	65	—	65
Cash flow hedges	15.1.6 and 15.1.10	54	—	54	86	—	86
Translation Differences	15.1.10	1	—	1	(1)	—	(1)
Companies Accounted for using the Equity Method	15.1.6 and 15.1.10	1	—	1	1	—	1
Other Income and Expenses Recognised Directly in Equity		—	—	—	—	—	—
Tax Effect	15.1.6, 15.1.10 and 32	(13)	—	(13)	(21)	—	(21)
Items that cannot be reclassified to profit or loss:		(29)	—	(29)	100	—	100
From Revaluation/(Reversal of Revaluation) of Property, Plant and Equipment and Intangible Assets		—	—	—	—	—	—
From Measurement of Financial Instruments		—	—	—	—	—	—
Financial Assets at Fair Value		—	—	—	—	—	—
Other income/(Expenses)		—	—	—	—	—	—
From Actuarial Gains and Losses and other Adjustments	15.1.10 and 17.1	(33)	—	(33)	127	—	127
Income tax effect	15.1.10 and 32	4	—	4	(27)	—	(27)
AMOUNTS TRANSFERRED TO INCOME STATEMENT AND/OR INVESTMENTS	15.1.6	(58)	—	(58)	(79)	—	(79)
Cash flow hedges	15.1.10	(77)	—	(77)	(108)	—	(108)
Translation differences		—	—	—	—	—	—
Companies accounted for using the equity method	15.1.10	—	—	—	2	—	2
Other income and expenses recognised directly in equity		—	—	—	—	—	—
Tax Effect	15.1.10 and 32	19	—	19	27	—	27
Total COMPREHENSIVE INCOME		1,373	9	1,382	1,549	10	1,559

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 2018 and 2017.

ENDESA, S.A. and Subsidiaries

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

Millions of euros

		Equity attributable to owners of the Parent† (Note 15.1)							
		Capital and reserves							
Notes		Capital	Share Premium, Reserves and Interim Dividend	Treasury Shares and Own Equity Instruments	Profit for the period	Other Equity Instruments	Valuation Adjustments	Non-Controlling Interests (Note 15.2)	Total equity
Balance at 1 January 2018		1,271	6,414	—	1,463	—	(52)	137	9,233
Adjustments due to changes in accounting policies	2.1	—	31 (1)	—	—	—	—	—	31
Corrections of Errors		—	—	—	—	—	—	—	—
Adjusted Balance at 1 January 2018		1,271	6,445	—	1,463	—	(52)	137	9,264
Total Comprehensive Income		—	(29)	—	1,417	—	(15)	9	1,382
Transactions with Shareholders or Owners		—	(1,463)	—	—	—	—	(2)	(1,465)
Capital Increases/(Reductions)	15.2 and 33.3	—	—	—	—	—	—	(1)	(1)
Conversion of Liabilities into Equity		—	—	—	—	—	—	—	—
Dividends Paid	15.1.9	—	(1,463)	—	—	—	—	(9)	(1,472)
Transactions with Treasury Shares or Own Equity Instruments (Net)		—	—	—	—	—	—	—	—
Increases/(Reductions) due to Business Combinations	5.4	—	—	—	—	—	—	2	2
Other Transactions with Shareholders or Owners	15.2 and 33.3	—	—	—	—	—	—	6	6
Other Changes in Equity		—	1,463	—	(1,463)	—	—	—	—
Share-based Payments		—	—	—	—	—	—	—	—
Transfers Between Equity Items		—	1,463	—	(1,463)	—	—	—	—
Other Changes		—	—	—	—	—	—	—	—
Balance at 31 December 2018		1,271	6,416	—	1,417	—	(67)	144	9,181

1 Corresponding to the effect of the first application of IFRS 9 "Financial Instruments" and IFRS 15 "Ordinary Revenues from Contracts with Customers" amounting to Euros 40 million, negative, and Euros 71 million, positive, respectively. 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 2018.





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 owners of the Parent ^(Note 15.1)						Non-Controlling Interests ^(Note 15.2)	Total equity
		Capital and reserves					Valuation Adjustments		
		Capital	Share Premium, Reserves and Interim Dividend	Treasury Shares and Own Equity Instruments	Profit for the period	Other Equity Instruments			
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 Statements of Cash Flows

for the years ended at 31 December 2018 and 2017

Millions of euros			
	Notes	2018	2017
Profit before Tax		1,818	1,900
Adjustments for:		1,910	1,579
Depreciation and amortisation, and impairment losses	29	1,708	1,511
Other adjustments (Net)		202	68
Changes in Working Capital	33.1	(653)	(370)
Trade and Other Receivables		298	(387)
Inventories		(361)	(241)
Current financial assets		(285)	(554)
Trade Payables and Other Current Liabilities		(305)	812
Other Cash Flows from/(used in) Operating Activities:	33.1	(655)	(671)
Interest received		29	44
Dividends received		30	27
Interest paid		(142)	(134)
Income tax paid		(326)	(350)
Other receipts from and payments for operating activities		(246)	(258)
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	2,420	2,438
Acquisitions of Property, Plant and Equipment and Intangible Assets	33.2	(1,425)	(1,078)
Proceeds from sales of property, plant and equipment and intangible assets	33.2	8	15
Purchase of Investments in Group Companies	33.2	(136)	(2)
Proceeds from sale of Investments in Group companies	33.2	20	16
Purchase of other Investments		(226)	(187)
Proceeds from Sale of other Investments		46	29
Cash flows from Changes in the Scope of Consolidation		—	—
Grants and other deferred income	33.2	86	92
NET CASH FLOWS FROM INVESTING ACTIVITIES	33	(1,627)	(1,115)
Cash Flows from Equity Instruments	15.2 and 33.3	5	(3)
Proceeds from Non-Current Borrowings	18.1 and 33.3	721	315
Repayment of Non-Current Borrowings	18.1 and 33.3	(56)	(74)
Net Cash Flows Used in Current Borrowings	18.1 and 33.3	(146)	(165)
Dividends of the Parent Paid	15.1.9, 15.1.11 and 33.3	(1,463)	(1,411)
Payments to Non-controlling Interests	15.2 and 33.3	(9)	(4)
NET CASH FLOWS FROM FINANCING ACTIVITIES	33	(948)	(1,342)
Total NET CASH FLOWS		(155)	(19)
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents		—	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(155)	(19)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14	399	418
Cash in Hand and at Banks		399	418
Cash Equivalents		—	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	244	399
Cash in Hand and at Banks		244	399
Cash Equivalents		—	—

The accompanying notes 1 to 40 to the Consolidated Financial Statements are an integral part of the Consolidated Statements of Cash Flows for the years ended 31 December 2018 and 2017.



Notes to the Consolidated Financial Statements

for the year ended 31 December 2018



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 2017 were approved by the shareholders at the General Meeting of Shareholders held on 23 April 2018 and filed with the Madrid companies register.

The ENDESA consolidated financial statements for the year ended 31 December 2018, and those of all the companies comprising the Group for 2018, 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 ultimate parent company 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 2017 were approved by the shareholders at the General Meeting of Shareholders held on 24 May 2018 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 2018 were authorised for issue by the directors of the Parent Company at a board meeting held on 25 February 2019 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 2018, 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 Consolidated Financial Statements have been prepared following the same Accounting Policies, Presentation Basis and Valuation Rules applied in the Consolidated Financial Statements for the year ended 31 December

2017, with the exception of the new International Financial Reporting Standards (IFRS) and Interpretations of the IFRS Interpretations Committee (IFRIC) published in the Official Journal of the European Union which was first applied by ENDESA in the Consolidated Financial Statements for the year ended 31 December 2018 (see Note 2.1.a), and following the operating company principle by applying the cost method, with the exception of the items that, in accordance with the International Financial Reporting Standards (IFRS), are recorded at fair value, as indicated in the Valuation Standards for each item. Items on the consolidated income statement are classified by types of costs.

ENDESA's consolidated financial statements for the years ended 31 December 2018 and 2017 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 interpretations.



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 2018

Standards, amendments and interpretations	Mandatory application: Annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Clarifications to the IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRIC 22 Transactions in Foreign Currency and Advance Consideration	1 January 2018
Amendments to IAS 40 Investment Property: Transfers of Investment Property	1 January 2018
Amendments to the IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions.	1 January 2018
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 First-Time Adoption of International Financial Reporting Standards - IFRS 12 Disclosure of Interests in Other Entities - IAS 28 Investments in Associates and Joint Ventures	1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)

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 (see Note 3g).

The transition method adopted by ENDESA in the first application of this Standard was the retroactive application method with accumulated effect of this application at 1 January 2018, so the figures for 2017, presented for comparative purposes, have not been restated. However, to facilitate the comparison of the figures at 31 December 2018 and 2017 in Note 19, the financial instruments are classified in the new categories.

The effect of the adoption of IFRS 9 “Financial Instruments” as well as its impacts on ENDESA’s Consolidated Financial Statements at the date of first application is detailed below:

→ **Classification and measurement of financial assets and liabilities:** According to the business model and the characteristics of the contractual cash flows, no significant impacts have been identified, given that most of the financial assets continue to be valued at amortised cost, with the exception, mainly, of the equity instruments, which are valued at fair value with changes in the Consolidated Income Statement, and derivative financial instruments, which are valued at fair value with changes in the Consolidated Income Statement.

The following is a description of the classification and valuation of non-current and current financial instruments under IFRS 9 Financial Instruments as of 1 January 2018, without considering the effect of the impairment mentioned in the following section:

Type of Financial Instruments	Valuation Category in accordance with IFRS 9 Financial Instruments	1 January 2018 (Millions of Euros)	
		Non-current	Current
Derivatives	Financial assets at fair value with changes in the consolidated income statement	39	160
Hedging derivatives		31	97
Derivatives not designated as hedging instruments		8	63
Financial Assets	Financial assets measured at amortised cost	724	764
Financing of the revenue shortfall from regulated activities in Spain and other regulated remuneration		—	222
Compensations for extra-costs in non-mainland generation (TNP)		—	304
Guarantee deposits		424	—
Loans to employees		22	11
Loans to Associated Companies, Joint Ventures and Joint Operation Entities		66	5
Remuneration of the distribution activity		106	70
Remuneration to the investment in Renewable Energies		3	1
Other financial assets		105	151
Value Adjustment		(2)	—
Equity instruments	Financial assets at fair value with changes in the consolidated income statement	6	—
Trade Receivables	Financial assets measured at amortised cost	—	2,631
Cash and Cash Equivalents	Financial assets measured at amortised cost	—	399
Total		769	3,954



The following is a description of the classification and valuation of non-current and current financial liabilities under IFRS 9 Financial Instruments as of 1 January 2018:

Type of Financial Instruments	Valuation Category in accordance with IFRS 9 Financial Instruments	1 January 2018 (Millions of Euros)	
		Non-current	Current
Derivatives	Financial liabilities at fair value with changes in the consolidated income statement	46	128
Hedging derivatives		30	76
Derivatives not designated as hedging instruments		16	52
Financial Debt and Other Non-current Liabilities	Financial liabilities measured at amortised cost	4,979	978
Bonds and other marketable securities		35	889
Bank borrowings		892	18
Other Borrowings		3,475	71
Other Liabilities		612	—
Financial Debt	Financial liabilities at fair value with changes in the consolidated income statement	35	—
Bonds and other marketable securities		35	—
Trade Payables and Other Current Liabilities	Financial liabilities measured at amortised cost	—	5,283
Total		5,060	6,389

In 2018, the effect of the restatement at fair value of equity instruments amounted to Euros 1 million and is included in the Financial Expenses section of the Consolidated Income Statement (see Note 30).

→ **Impairment of financial assets:** ENDESA has applied the simplified approach for trade receivables, estimating lifetime expected loss 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 on ENDESA's Consolidated Financial Statement on the date of first application, is as follows:

Millions of euros		
Consolidated Statement of Financial Position	Notes	1 January 2018
Non-current assets		12
Non-current Financial Assets	19.1.1	(10)
Deferred tax assets	22.1	22
Current assets		(43)
Trade and Other Receivables	13.1	(33)
Current Financial Assets	19.1.1	(10)
Total Assets		(31)
Equity	15	(40)
Of the Parent		(40)
Of the non-controlling interests		—
Non-current liabilities		9
Deferred Tax Liabilities	22.2	9
Total Equity and Liabilities		(31)

→ **Hedge accounting:** ENDESA has opted for the prospective application of hedge accounting of IFRS 9 “Financial Instruments” and therefore its adoption has not had an impact on the Consolidated Financial Statements at 1 January 2018.

→ **Refinancing of Interest-bearing Loans and Borrowings:** ENDESA has assessed the impact of the accounting treatment of refinancing transactions that have not led to a reduction in the financial liability without this having a significant impact.

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.

The transition method adopted by ENDESA in the first application of this Standard was the retroactive application method with accumulated effect of this application at 1 January 2018, so the figures for 2017, presented for comparative purposes, have not been restated.

As a result of the first application from 1 January 2018 of IFRS 15 “Revenue from Contracts with Customers”, ENDESA has capitalised under Non-Current Assets the incremental costs of obtaining these contracts with customers

that, at 1 January 2018, had been recognized in the Consolidated Statement of Financial Position. This asset is depreciated systematically depending on the average expected useful life of the contracts with customers associated with these costs, which, to date, varies anywhere between 1.4 years to 9 years (see Note 3d.4).

Based on the foregoing, the impact on ENDESA's Consolidated Financial Statement on the date of first application of IFRS 15 “Revenue from Contracts with Customers”, is as follows:

Millions of euros		
Consolidated Statement of Financial Position	Notes	1 January 2018
Non-current assets		95
Intangible assets	8	95
Total ASSETS		95
Equity	15	71
Of the Parent		71
Of the non-controlling interests		—
Non-current liabilities		24
Deferred Tax Liabilities	22.2	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.

Likewise, in order to facilitate comparison of the figures as of 31 December 2018 and 2017, in the Notes 13, 23 and 26, the assets and liabilities of contracts with clients are presented according to these new categories established by the Standard.



Impacts of the Changes in the Accounting Principles

The impacts derived from the application of IFRS 9 “Financial Instruments” and IFRS 15 “Ordinary Revenues from Contracts with Customers” on the Consolidated Statement of Financial Position at 1 January 2018, are as follows:

Millions of euros

	1 January 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	1 January 2018 (Adjusted)
Non-current assets	25,507	12	95	25,614
Current assets	5,530	(43)	—	5,487
Total Assets	31,037	(31)	95	31,101
Equity	9,233	(40)	71	9,264
Of the Parent	9,096	(40)	71	9,127
Of Non-Controlling Interests	137	—	—	137
Non-current liabilities	14,269	9	24	14,302
Current Liabilities	7,535	—	—	7,535
Total Equity and Liabilities	31,037	(31)	95	31,101

During 2018, the capitalisation of the incremental costs incurred from obtaining contracts with customers, as a result of the application of IFRS 15 “Ordinary Revenue from Contracts with Customers”, has entailed a Euros 70 million decrease million under “Other Variable Procurements and Services” and a Euros 54 million increase under “Depreciation and amortisation, and impairment losses” on the Consolidated Income Statement.

During 2018, the effect of the impairment of financial assets in accordance with IFRS 9 “Financial Instruments” amounted to Euros 6 million, positive, in the “Depreciation and Amortisation, and Impairment Losses” heading and Euros 3 million, positive, in the “Financial Result” heading of the Consolidated Income Statement (see Note 30).

Below is a breakdown of the impacts of the application of IFRS 9 “Financial Instruments” and IFRS 15 “Ordinary Revenues from Contracts with Customers” in the Consolidated Financial Statements for the year ended 31 December 2018:

Millions of euros

Consolidated Statement of Financial Position	31 December 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	31 December 2018 Unaffected by the Application of IFRS 9 and IFRS 15
Non-current assets	26,001	(19)	(111)	25,871
Current assets	5,655	36	—	5,691
Total Assets	31,656	17	(111)	31,562
Equity	9,181	33	(83)	9,131
Of the Parent	9,037	33	(83)	8,987
Of Non-Controlling Interests	144	—	—	144
Non-current liabilities	14,781	(16)	(28)	14,737
Current Liabilities	7,694	—	—	7,694
Total Equity and Liabilities	31,656	17	(111)	31,562

Millions of euros

Consolidated income statement	2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	2018 Unaffected by the Application of IFRS 9 and IFRS 15
Income	20,195	—	—	20,195
Procurements and Services	(14,567)	—	(70)	(14,637)
Other variable procurements and services	(2,051)	—	(70)	(2,121)
Contribution Margin	5,628	—	(70)	5,558
Gross Profit from Operations	3,627	—	(70)	3,557
Depreciation and impairment losses	(1,708)	(6)	54	(1,660)
Profit from Operations	1,919	(6)	(16)	1,897
Net Financial Profit/(Loss)	(139)	(3)	—	(142)
Profit/(Loss) Before Tax	1,818	(9)	(16)	1,793
Income Tax Expense	(392)	2	4	(386)
Profit for the Year	1,426	(7)	(12)	1,407
Parent Company	1,417	(7)	(12)	1,398
Non-controlling interests	9	—	—	9





b) 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
IFRS 16 Leases	1 January 2019
Amendments to IFRS 9 Financial Instruments: "Prepayment Features with Negative Compensation"	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments.	1 January 2019

ENDESA's management is assessing the impact that the application of this standard, amendments and interpretations would have, and had not concluded this analysis at the date of preparation of these consolidated financial statements.

IFRS 16 Leases

IFRS 16 "Leases" establishes that a lessee must recognise an asset according to right-of-use, which is 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 contracts as financial leases or operating leases.

ENDESA has opted to apply this Standard retroactively with the cumulative effect in the first application, which implies not re-expressing the comparative period and presenting the cumulative effect of the initial application of the Standard on 1 January 2019, recording the asset for the same value as the liability, so that the key figures of 2018, which will be presented for comparative purposes, will not be restated.

In relation to the practical solutions that the Standard allows at the date of first application, ENDESA has chosen not to apply this Standard to those leases whose term ends within 12 months from the date of first application or whose value of the underlying asset is less than 5,000 US dollars (USD) and, in these cases, recognises the payments

associated with the leases as an expense on a straight-line basis over the term of the lease in the "Other Operating Expenses" section of the Consolidated Income State.

Based on the foregoing, and taking into the consideration the practical solutions that have been adopted, the estimated impact on ENDESA's Consolidated Financial Statement on the date of first application of IFRS 16 "Leases," is as follows:

Millions of euros	
Consolidated Statement of Financial Position	1 January 2019
Non-current assets	192
Property, plant and equipment	192
Total Assets	192
Equity	—
Of the Parent	—
Of Non-Controlling Interests	—
Non-current liabilities	165
Non-current Interest-Bearing Loans and Borrowings	165
Current Liabilities	27
Current Interest-Bearing Loans and Borrowings	27
Total Equity and Liabilities	192

In 2019, and for the contracts in effect at 31 December 2018 the estimated impact of the application of IFRS 16 "Leases" will imply a decrease of 31 million euros in the "Other Operating Expenses" section in the Consolidated Income Statement and an increase of Euros 29 million in the "Depreciation and amortisation and impairment losses" section in the Consolidated Income Statement due to the depreciation and amortisation of use rights, and in the "Financial Expense" section of the Consolidated Income

Statement for Euros 3 million for the accrual of the financial liability for the lease.

The incremental effective interest rate used to register the lease liabilities in the Consolidated Statement of Financial Position at 1 January 2019 was 2.38%.

At 1 January 2019, the reconciliation between the total amount of the minimum future payments derived from operating lease agreements (see Note 9.2) and the financial liability for lease, from the lessee's point of view, is as follows:

Millions of euros		
	Notes	
Minimum Future Payments of the Operating Lease Contracts	9.2	227
Effect of Updating in accordance with the Incremental Effective Interest Rate		(33)
Lease Agreements Subject to the Exception ¹		(1)
Extensions of Reasonably Certain Contracts		—
Variable Payments Based on an Index		(1)
Financial Liability for Leasing		192

¹ Contracts with an expiry date of less than 12 months or contracts associated with assets that have an individual value that is lower than USD 5,000.

c) 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 International Standards 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 Deferral of Regulated Activities	1 January 2016 (2)
Amendments to IAS 28 Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures.	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 Business Combinations and IFRS 11 Joint Arrangements: Previously Held Interest in a Joint Operation. - IAS 12 Income Taxes: Income Tax Consequences of Payments on Financial Instruments Classified as Equity. - IAS 23 Borrowing Costs.	1 January 2019
Amendments to IAS 19 "Employee Benefits": Amendment, Reduction or Settlement of the Plan.	1 January 2019
Improvements to the References in the Conceptual Framework of International Financial Reporting Standards.	1 January 2020
IFRS 17 Insurance Contracts	1 January 2022
Amendments to IFRS 3 Business Combinations.	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2020

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.

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 workforce reduction plans and contracts suspension agreements (see Notes 3k.1, 3k.2, 17.1, 17.2 and 39).

- 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 y 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 assets and 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 Notes 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 that 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 2018 and 2017, 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.

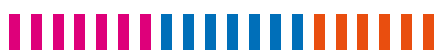
Appendix I to these consolidated financial statements lists ENDESA's subsidiaries at 31 December 2018 and 2017.

2.3.1. Changes in consolidation scope

2018

Companies added

The following subsidiaries were acquired or incorporated in 2018:





	Notes	Transaction	Activity	2018 Company Incorporations			
				Percentage of Participation at 31 December 2018		Percentage stake at 31 December 2017	
				Control	Ownership	Control	Ownership
Valdecaballero Solar, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Navalvillar Solar, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Castiblanco Solar, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Parque Eólico Muniesa, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Parque Eólico Farlán, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Aranort Desarrollos, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Bosa del Ebro, S.L. ¹	5.1	Acquisition	Wind	51.00	51.00	—	—
Tauste Energía Distribuida, S.L. ¹	5.1	Acquisition	Wind	51.00	51.00	—	—
Eólica del Cierzo, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
San Francisco de Borja, S.A. ¹	5.1	Acquisition	Wind	66.67	66.67	—	—
Parques Eólicos Gestinver, S.L.U. ¹	5.2	Acquisition	Wind	100.00	100.00	—	—
Parques Eólicos Gestinver Gestión, S.L.U. ¹	5.2	Acquisition	Wind	100.00	100.00	—	—
Energía Eólica Alto del Llano, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Eólica del Principado, S.A.U. ¹	2.4, 5.3 and 11.1	Acquisition	Wind	100.00	100.00	40.00	40.00
ENDESA X, S.A.U. ²		Incorporation	Supply	100.00	100.00	—	—
Sistemas Energéticos Campoliva, S.A.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Empresa de Alumbrado Eléctrico de Ceuta, S.A. ³	5.4	Acquisition	Supply and Distribution	96.29	96.29	—	—
Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. ^{3,4}	5.4	Acquisition	Supply	100.00	96.29	—	—
Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U. ^{3,4}	5.4	Acquisition	Distribution	100.00	96.29	—	—
Sistemas Energéticos Sierra del Carazo, S.L.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—
Sistemas Energéticos Alcohujate, S.A.U. ¹	5.1	Acquisition	Wind	100.00	100.00	—	—

¹ Companies acquired by ENEL Green Power, S.L.U. (EGPE).

² Company formed by ENDESA, S.A.

³ Companies acquired by ENDESA Red, S.L.U.

⁴ Companies acquired indirectly through the acquisition of Empresa de Alumbrado Eléctrico de Ceuta, S.A., which holds 100% of the share capital of them.

Removals and changes

There were no exclusions from the consolidation scope or variations in the control and economic participation percentages of the subsidiaries in 2018.

2017

Companies added

The following subsidiaries were acquired or constituted in 2017:

	Notes	Transaction	Activity	2017 Company Incorporations			
				Percentage of Participation at 31 December 2017		Percentage stake at 31 December 2016	
				Control	Ownership	Control	Ownership
Eléctrica de Jafre, S.A. ²	2.4, 5.6 and 11.1	Acquisition	Distribution	100.00	100.00	47.46	47.46
Explotaciones Eólicas Santo Domingo de Luna, S.A. ¹	5.1	Formed	Wind	51.00	51.00	—	—
Seguidores Solares Planta 2, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Baylio Solar, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Dehesa de los Guadalupes Solar, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—
Furatena Solar 1, S.L.U. ¹	5.1	Acquisition	Photovoltaic	100.00	100.00	—	—

¹ Companies acquired or formed by ENEL Green Power, S.L.U. (EGPE).

² Company acquired by ENDESA Red, S.L.U.

Companies excluded

On 4 August 2017 the dissolution of subsidiary Minas de Estercuel, S.A. and (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.	100.00	100.00
		Parque Eólico Aragón, S.L.U.	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 gain on the sale of the stake was Euros 9 million (see Note 31).

The net cash inflow in 2018, originating from the sale of this participation, was Euros 20 million (see Note 33.2).





Changes

During the year ended 31 December 2017, the following changes took place in the percentage of control and economic ownership of the companies included in the consolidation scope:

	2017 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.

2.3.2. Non-consolidated companies in which ENDESA holds an interest of more than 50%

Although ENDESA owns more than 50% of Asociación Nuclear Ascó-Vandellós II, A.I.E., this share is considered to be a joint operation entity 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 (see Note 2.5.1).

Likewise, ENDESA owns more than 50% of Front Marítim del Besòs, SL, although this share is considered a Joint Venture since ENDESA, under the signed shareholders' agreement, exercises joint control with the other partner and is entitled to the net assets (see Note 2.5.2 and 11.1).

2.4. Associates

Associates are entities in which the Parent Company has significant influence, directly or indirectly. Significant influ-

ence 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 2018 and 2017.

2018

Additions and changes

In the year ended 31 December 2018 there has been no incorporation of any associate to the consolidation perimeter or other changes in the percentage of control and economic ownership.

Companies excluded

After control was obtained over Eólica del Principado, S.A.U., on 22 May 2018, this investment was recognised as a subsidiary (see Notes 2.3.1, 5.3 and 11.1).

2017

Additions and changes

In the year ended 31 December 2017 there was no incorporation of any associate to the consolidation perimeter or other changes in the percentage of control and economic ownership.

Companies excluded

After control was obtained over Eléctrica de Jafre, S.A., on 31 May 2017, this investment was recognised as a subsidiary (see Notes 2.3.1, 5.6 and 11.1).

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.

Appendix I of the consolidated financial statement list the Joint Operations of ENDESA at 31 December 2018 and 2017.

2018

Additions, exclusions and changes

In the year ended 31 December 2018, there was no joint operation entity included in the scope of consolidation or changes in the control and ownership percentage stakes or exclusions from the consolidation scope.

2017

Additions and changes

In the year ended 31 December 2017 there was no incorporation of any joint operation entity to the consolidation perimeter or other changes in the percentage of control and economic ownership.

Companies excluded

On 30 June 2017, ENDESA sold the shares it held in the following companies:





	2017 Exclusions from the scope of consolidation			
	% Ownership at 31 December 2017		% Ownership at 31 December 2016	
	Control	Ownership	Control	Ownership
Aquilae 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).

The net cash inflow originating from the sale of these shares was Euros 16 million (see Note 33.2).

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.

Appendix II of the consolidated financial statement list the Joint Ventures of ENDESA at 31 December 2018 and 2017.

2018

Companies added

On 18 December 2018, ENDESA Generación S.A.U. bought up 61.37% of Front Marítim del Besòs, S.L. (see Notes 2.3.2 and 11.1).

	2018 Company Incorporations			
	% stake at 31 December 2018		% stake at 31 December 2017	
	Control	Economic	Control	Economic
Front Marítim del Besòs, S.L.	61.37	61.37	—	—

Companies excluded

On 3 January 2018, the joint venture Consorcio Eólico Marino Cabo de Trafalgar, S.L. (in liquidation), in which ENDESA, through its subsidiary ENEL Green Power, S.L.U. (EGPE), held a 50% stake, was extinguished. The financial indicators for this company were not material.

Changes

In the year ended 31 December 2018, there were no other changes in the percentage of control and economic ownership of any Joint Venture.

2017

Additions, exclusions and changes

In the year ended 31 December 2017, no Joint Ventures were included in the scope of consolidation, and there were no changes in the control and ownership percentage stakes or exclusions from the consolidation scope.

2.6. Other investments

The impact of the financial indicators of ENDESA's investees that are not considered subsidiaries, jointly-controlled 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.

Joint operation 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 asset 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 joint 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 valued 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 2018 was 1.9% (2.1% in 2017) (see Note 18.1) Euros 2 million were capitalised in this respect in 2018 (Euros 5 million in 2017) (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 self-constructed assets in the consolidated statement of financial position. In 2018, the amount capitalised in this respect amounted to Euros 100 million (Euros 98 million in 2017).
- 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 Radiactivos, S.A. undertakes responsibility for decommissioning these plants pursuant to Royal Decree 1349/2003 of 31 October 2003, Law 24/2005 of 18 November 2005 and Law 15/2012 of 27 December 2012(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, with the exception of the assets of the Alcudia Thermal Power Plant (Balearic Islands).

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	
	2018	2017
Generating facilities:		
Hydroelectric plants		
Civil engineering works	100	100
Electromechanical equipment	50	50
Coal-fired power plants	25-59	25-59
Nuclear power plants	50	50
Combined cycle plants	40	40
Renewable Energy Plants		
Photovoltaic	30	30
Wind	30	30
Transmission and Distribution Facilities		
Low and medium-voltage network	40	40
Measuring and remote control equipment	6-15	6-15
Other facilities	25	25

Lands have an indefinite useful life and are therefore not depreciated.

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; at 31 December, 2018, the reversal period falls between 2019 and 2067 (see Note 17.3) These facilities are depreciated during the concession period or their economic lifespan, whichever of these 2 periods is shorter.

ENDESA assessed the specific situations of these concessions, and concluded that the decisive factors for application of 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

The Investment property (or Real Estate Investments) section of the Consolidated Statement of Financial Position 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 2018 (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 2018 the goodwill recognised in the consolidated statement of financial position was generated as a result of the acquisition of systems and telecommunications activity (ICT) (see Note 5.5), and the acquisition of control over ENEL Green Power España, S.L.U. (EGPE), Eléctrica del Ebro, S.A.U. and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (see Note 5.4).



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, except for the goodwill allocated to the Cash Generating Unit (CGU) of the Non-Peninsular Territory (TNP) of the Balearic Islands (see Note 10).

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 2018 and 2017, 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.

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 2018 and 2017, 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 Note 3a, provided that the concession operator has a contractual right to receive an intangible asset. No borrowing costs were capitalised in 2018 and 2017.

No personnel expenses were capitalised in 2018 and 2017.

Concessions are amortised over the term of the concession.

Concession contracts that are not subject to IFRIC 12 Service Concession Arrangement 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 10 million in 2018 (2017: Euros 24 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 2018 and 2017, respective personnel expenses amounting to Euros 30 and 37 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.

d.4. Incremental costs of obtaining a contract with a customer

The incremental costs of obtaining a contract are the costs incurred to obtain a contract with a customer and that it would not have been incurred if the contract had not been obtained.

ENDESA recognises the incremental costs of obtaining contracts with customers as an intangible asset, insofar as they are directly related to a contract or a future contract that can be specifically identified and from which these costs are expected to be recovered.

This asset is depreciated systematically depending on the average expected useful life of the contracts with customers associated with these costs, which, at 31 December 2018, varies anywhere between 1.4 years to 9 years (see Note 2.1).

The costs of obtaining a contract that ENDESA would have incurred, regardless of whether the contract is obtained or not, are recognised as an expense in the Consolidated Income Statement when they occur.

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 Cash Generating Unit (CGU); 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 2018 and 2017 were as follows:

→ **Generation:** There is a CGU for generation on the Iberian Peninsula and another CGU for each of the non-mainland 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 (coal, combined cycle, fuel, hydroelectric, nuclear 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 op-

erations 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 in Spain constitute a single Cash Generating Unit (CGU), since said distribution network consists of a set of interrelated and dependent assets whose development, operation and maintenance are jointly managed.

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 2018 and 2017 fall within the following ranges:

Currency	31 December 2018		31 December 2017	
	Minimum (%)	Maximum (%)	Minimum (%)	Maximum (%)
Generation Euro	4.9	6.4	5.4	7.3
Distribution Euro	5.1	6.8	5.5	7.2

An analysis of the parameters comprising the 2018 discount rates reveals that the risk-free rate decreased significantly from 1.82% in 2017 to 1.46% in 2018, 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 used in 2018 and 2017 (g rate) to extrapolate the cash flow projections were as follows:

%		2018	2017
Growth rate		1.6	1.7

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 the activity of other products and services.
- 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.

On 3 November 2018, Order TEC/1158/2018, of 29 October 2018 was published, on the additional remuneration of Non-mainland Territories (TNP) electricity generating facilities required to made additional investments in order to comply with EU and Spanish regulations to remain in operations, resulting in the exclusion of the coal groups of the Alcudia Thermal Power Plant (Balearic Islands).

In not recognising this additional remuneration system, on 27 December 2018, the Company filed an application with the Directorate General of Energy and Climate Change of the Balearic Government to authorise the closure of Groups 1 and 2 of the Alcudia Thermal Power Plant (Balearic Islands) and, also, a reduction of the estimated useful life of Groups 3 and 4 at that plant.

This took the recovery amount of these assets to below their carrying amount, resulting in the recognition of the Consolidated Income Statement of an impair-

ment loss amounting to Euros 158 million (see Notes 6, 10 and 29).

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. In 2018, the deviations seen with respect to the expectations established in the projections used to carry out impairment tests at 31 December 2017 have not been significant, and cash flows generated in 2018 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 2017, except for the effect of the publication of Order TEC/1158/2018, of 29 October 2018, for the coal plants in the Balearic Islands, mentioned in the previous paragraph.

At 31 December 2018, ENDESA carried out a sensitivity analysis on the results of the impairment tests described using the reasonable variations of the main key assumptions detailed below:

	Increase	Decrease
Discount rate	50bp	N/A
Growth rate	N/A	50bp
Pool price	N/A	5%
Operating and Maintenance Costs	5%	N/A
Investment in Maintenance	5%	N/A
Electricity Demand	N/A	1%

As of 31 December 2018, as a result of said sensitivity analysis, it is concluded that an unfavorable change in the key assumptions used within the ranges considered, keeping the rest of the variables unchanged, would not result in an impairment of assets, except in the case of the Cash Generating Unit (CGU) of the Balearic Islands, whose book value has been adjusted to the value in use. As a consequence, any negative variation of the key assumptions considered would mean that the value in use of said Cash Generating Unit (CGU) was lower than its book value.

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. Financial assets

For valuation purposes, ENDESA classifies its financial assets at the date of their initial recognition, taking into account both their business model and the characteristics of the contractual cash flows, whether permanent or temporary, excluding investments accounted for using the equity method (see Notes 3h and 11.1) and those investments held for sale, in the following categories:



→ Financial assets measured at amortised cost: they are recorded at amortised cost, if they are managed with a business model whose objective is to hold financial assets to receive contractual cash flows and the contractual conditions give rise, on specified dates, to cash flows that are only payments of principal and interests on the outstanding principal amount. In the initial recognition, the amortised cost corresponds to the initial fair value, less the refunds of the principal paid, plus accrued uncollected interest calculated using the effective interest rate 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.

→ Financial assets at fair value with changes in the consolidated statement of other comprehensive income they are initially recorded at fair value if they are managed with a business model whose objective is to obtain contractual cash flows and sell financial assets, and the contractual conditions give rise, on specific dates, to cash flows that are only payments of principal and interests on the outstanding principal amount. The initial recognition at fair value includes the transaction costs directly attributable to the acquisition. In subsequent periods, these assets are measured at fair value, recognising the loss or gain in the consolidated statement of other comprehensive income, although the accrued interest will be recognised in the Income Statement. The amounts recognised in the consolidated statement of other comprehensive income are recognised in the Income Statement at the time of the derecognition of the financial assets.

→ Financial assets that must be at fair value with changes in the Income Statement: includes financial assets held for trading, which are originated or acquired for the

purpose of realising them in the short term or are part of a portfolio of identified financial instruments, which are managed jointly and there is evidence of actions to obtain short-term gains or there are derivative financial instruments that do not meet the definition of a financial guarantee contract or that have been designated as hedging instruments. They are initially recorded at fair value plus the transaction costs directly attributable to the transaction. In subsequent periods, these assets are measured at fair value, recognising the loss or gain in the consolidated income statement.

→ Financial assets at fair value with changes in the Income Statement: they are initially recorded at fair value plus the transaction costs directly attributable to the transaction. In subsequent periods, these assets are measured at fair value, recognising the loss or gain in the consolidated income statement.

ENDESA has designated the equity instruments in this category.

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

In accordance with the requirements of IFRS 9 “Financial Instruments”, to determine the need to register and impairment of the value of financial assets, ENDESA applies the method of expected credit losses in the accounts receivable for leases and in contractual assets derived from contracts with customers, according to the following procedure:

- In the case of financial assets that have a commercial origin, accounts receivable for leases and contractual assets derived from contracts with customers included in the “Financial assets measured at amortised cost” category, the expected credit losses during the life of the financial assets are determined collectively, grouped by type of customer and market.

The non-payment percentages are calculated separately for each of the groups identified, grouped by maturity, type of customer and market, based on the historical experience of non-payment for the last 36 months and taking into account the probability that an account receivable evolves to the following scenarios of non-payment until the write-off.

- The following aspects are taken into consideration for the other financial assets:
 - > For financial assets in which there is an individualised identification of the counterparty, an individual assessment is made of both the probability of non-payment and the loss in case of non-payment. The expected loss is calculated by multiplying both factors by the net exposure in case of non-payment.
 - > For those assets with a large volume and similar characteristics, they are grouped by nature and an estimate of the expected loss of the whole is made.

However, the foregoing individually determines the expected credit losses on the assets for which there is objective evidence that ENDESA will not be able to

recover all the amounts according to the original terms of the contracts.

When evaluating whether the risk has increased significantly for a financial asset or group of financial assets, ENDESA uses the modification in the non-payment risk that will occur during the expected life of the instrument.

ENDESA recognises impairment losses on financial assets at amortised cost 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

For valuation purposes, ENDESA classifies its financial liabilities at the date of initial recognition:

- Financial liabilities at amortised cost: which include interest-bearing loans and borrowings and trade and other payables, and are initially 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).
- Financial liabilities at fair value: they are initially recorded at fair value, which is the price of the transaction. The cost incurred in the transaction are recorded as an expense as they are incurred. After their initial recog-



dition, they are recognised at fair value, recording the changes in the Income Statement.

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 confirming transaction arrangements with a number of financial entities (see Note 23). ENDESA applies the criteria set forth in Note 3g.7 in assessing the write-off of the original liability with trade payables and recognise a new liability with financial entities. Trade payables whose payment is managed by financial entities are recognised under "Trade payables and other current liabilities" 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 elim-

inate 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 payables and other current liabilities," 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 the “Other comprehensive income” in the consolidated statement of other comprehensive income, and transferred to the consolidated income statement when the hedged investment is sold.

A hedge is only applicable when there is a financial relationship between the hedged item and the hedging instrument, the credit risk of the hedged item does not have a dominant effect on the changes in value resulting from that financial relationship, and the hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that ENDESA actually uses to cover said amount of the hedged item.

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 of 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 debt-or position) and the risk profile of the counterparties and of ENDESA's own risk profile. In 2018 and 2017, 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 3p (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 from the Statement of Financial Position 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 beneficiaries; and
- ENDESA has substantially transferred all the risks and rewards inherent to the ownership, or it has neither transferred nor substantially retained all the risks and rewards of the asset, but has transferred control of the asset.

In 2018 and 2017, 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, 19.1.1 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 rate method.

Financial liabilities are derecognised from the Statement of Financial Position when they are extinguished, that is, when the obligation deriving from the liability has been settled or 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.

g.9. Reclassification of financial assets and liabilities

Financial assets are subject to reclassification when the business model is amended for its management and the effect in the Income Statement and in the statement of other comprehensive income is detailed below:

- Reclassification from the amortised cost category to the fair value category with changes in the Income Statement, the difference between the fair value and

the book value is recorded in the Income Statement. As of that date, the interest of the financial asset are not recorded separately.

- Reclassification from the fair value category with changes in the Income Statement to the amortised cost category, the fair value at the reclassification date is considered the new gross carrying amount for the purpose of applying the effective interest rate method and for recording credit losses.
- Reclassification from the amortised cost category to the fair value category with changes in the statement of other comprehensive income, the difference between the fair value and the book value is recorded in the statement of other comprehensive income. The effective interest rate and the recording of expected credit losses are not adjusted by the reclassification. However, the accumulated amount of the expected credit losses is recorded in the statement of other comprehensive income.
- Reclassification from the fair value category with changes in the other comprehensive income statement to the amortised cost category: it is registered at its fair value. The deferred amount in the Other Comprehensive Income Statement is adjusted to the carrying amount of the asset. The effective interest rate and the recording of expected credit losses are not adjusted by the reclassification.
- Reclassification from the fair value category with changes in the Income Statement to fair value with changes in the Other Comprehensive Income Statement, the effective interest rate and the expected credit losses are determined on the date of reclassification at fair value at that date.
- Reclassification from the fair value category with changes in the Other Comprehensive Income Statement to the fair value category with changes in the Income Statement: the amount deferred in equity is reclassified to the Consolidated Income Statement. As of that date, the Group does not record the interest from the financial asset separately.

Financial liabilities are not subject to reclassification.

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.

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.



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 2018 and 2017.

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 2 million in 2018 and Euros 3 million in 2017 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 companies that emit carbon dioxide (CO₂) in their electricity generation activity must deliver carbon dioxide (CO₂) emission rights (allowances), specifically European Union Allowances (EUAs) equal to their emissions during the year in the first few months of the following year.

They can also use Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) for other purposes, such as voluntary emission compensation.

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

j.1. 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.

j.2. Liabilities from contracts with customers

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.

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, 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 from 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 Limited 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 plans

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 workforce reduction plans, 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 generate CO₂ emissions in their electricity generation activity must deliver CO₂ emission allowances equal to their emissions during the year in the first few months of the following year. The companies can also use Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) for voluntary compensation.

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, to be delivered to cover this obligation in the "Inventories" section 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, 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 for the corresponding update, depending on the remaining useful life of the associated asset, have been placed in the following ranges:

%	2018	2017
Financial Adjustment Rate	0.3 - 1.6	0.1 - 1.5

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 2018 and 2017, no provisions for onerous contracts were 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 2018 these balances amounted to Euros 11 million (Euros 17 million at 31 December 2017) (see Note 18.2.1).

n) Income tax

In 2018, 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 consolidated 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 2018 is 39 (35 companies at 31 December 2017), and which are detailed below: ENEL Iberia, S.L.U., ENDESA, S.A., Almussafes Servicios Energéticos, S.L.U., Aragonesa de Actividades Energéticas, S.A.U., Baylio Solar, S.L.U., Dehesa de los Guadalupe Solar, S.L.U., Distribuidora de Energía Eléctrica del Bages, S.A., Distribuidora Eléctrica del Puerto de la Cruz, S.A.U., Eléctrica de Jafre, S.A., 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., ENDESA X, S.A.U., ENEL Green Power España, S.L.U. (EGPE), Energía Eléctrica del Ebro, S.A.U. (en liquidation), Energías de Aragón I, S.L.U., Energías de Aragón II, S.L.U., Energías Especiales del Alto Ulla, S.A.U., Furatena Solar 1, S.L.U., Gas y Electricidad Generación, S.A.U., Guadarranque Solar 4, S.L.U., Hidroeléctrica de Catalunya, S.L.U., Parque Eólico A Capelada, S.L.U., Productor Regional de Energía Renovable, S.A.U.,

Productor Regional de Energías Renovables III, S.A.U., Promociones Energéticas del Bierzo, S.L.U., Seguidores Solares Planta 2, 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 2018, ENDESA acquired shares in Aranort Desarrollos, S.L.U., Bosa del Ebro, S.L., Castiblanco Solar, S.L.U., Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U., Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U., Empresa de Alumbrado Eléctrico de Ceuta, S.A., Energía Eólica Alto del Llano, S.L.U., Eólica del Cierzo, S.L.U., Eólica del Principado, S.A.U., Navalvillar Solar, S.L.U., Parque Eólico Farlán, S.L.U., Parque Eólico Muniesa, S.L.U., Parques Eólicos Gestinver Gestión, S.L.U., Parques Eólicos Gestinver, S.L.U., San Francisco de Borja, S.A., Sistemas Energéticos Alcohujate, S.A.U., Sistemas Energéticos Campoliva, S.A.U., Sistemas Energéticos Sierra del Carazo, S.L.U., Tauste Energía Distribuida, S.L. and Valdecaballero Solar, S.L.U. (see Note 2.3.1). At 1 January 2019, 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.

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 (see Note 22.2). 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.

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 2018, the Consolidated Tax Group has its books open to inspection for 2006, 2015 and onwards for corporate income tax and for 2015 and onwards in respect of all other applicable taxes.

In 2018, the tax authorities completed the review and general investigation launched in 2016 regarding corporate income tax in 2011 to 2014, value added tax (VAT) for 2012 to 2014, and withholdings between 2011 and 2014 and partial from 2015 to 2017 (see Note 17.3).

o) Income and expense recognition

o.1. Revenue from contracts with customers

a) General income recognition criteria

As mentioned in Note 2.1, on 1 January 2018, ENDESA adopted IFRS 15 Revenue from Contracts with Customers, which 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.

This new revenue model is applicable to all contracts with customers, except for those related to leases (see Note 3f) and insurance and financial instrument contracts (see Note 3g).

As general criteria, ENDESA recognises the income from its ordinary activities as the delivery of the goods or the rendering of the services contractually agreed to with its customers occurs during the life of the contract and for the amount of the consideration to which it expects to be entitled in exchange for said goods or services.

In particular, ENDESA follows the following stages for the recognition of revenue from contracts with customers:

- ➔ Identifying the contract with the customer: To identify a contract, ENDESA ensures that the parties have approved the contract and undertake to comply with their respective obligations, identifying the rights of each of the parties, the payment terms in relation to the goods or services to be transferred, and ensuring that the contract has a commercial nature and it is probable that the



consideration to which it is entitled will be collected in exchange for the goods or services that will be transferred to the customer.

→ Identify the obligations for executing the contract: At the beginning of the contract, ENDESA assesses the goods or services promised in a contract with a customer and identifies each promise to transfer to the customer as an execution obligation:

- a) A good, service or a group of differentiated goods or services; or
- b) A series of differentiated goods or services that are practically the same and that follow the same pattern of transfer to the customer.

A good or service promised to a customer is differentiated if the following 2 criteria are met:

- 1) The customer can use the good or service on its own or together with other resources that can be made easily available; and
- 2) ENDESA's commitment to transfer the good or service to the customer is identifiable separately from other commitments contained in the contract.

→ Determine the price of the transaction: this is determined as the amount of the consideration to which it expects to be entitled in exchange for transferring the goods or services committed to with the customer, excluding the amounts charged on behalf of third parties, which could include fixed or variable amounts, such as discounts, refunds, subscriptions, incentives, bonuses and other similar concepts.

→ When the transaction price includes a variable consideration, ENDESA initially estimates the amount of the consideration to which it will be entitled, using the expected value method or the most probable amount, and only including all or part of the amount of the var-

iable consideration to the extent to which it is highly probable that a significant reversal of the cumulative revenue recognised will not occur when, subsequently, the uncertainty over the variable consideration is resolved.

→ When estimating the transaction price, the temporary value of money is also taken into account if it is considered that there is a significant financing component, as well as considerations other than cash and other considerations to be paid to the customer.

→ Allocate the transaction price between the contract execution obligations: ENDESA distributes the price of the transaction in such a way that each execution obligation identified in the contract is assigned an amount that represents the consideration it will obtain in exchange for transferring the good or service committed in said execution obligation to the customer. This allocation is made proportionally and based on the corresponding independent sales prices of the goods and services included of each execution obligation. The best evidence of independent selling prices is their observable price, when these goods or services are sold separately under similar circumstances. When this price is not available, ENDESA estimates the amount using an approach that maximises the use of observable data, such as an adjusted valuation based on a market price, an expected cost plus a margin or using a residual approach.

→ When the contract includes more than one good or differentiated service and a discount is granted on the total price, unless there is more observable evidence that the discount is fully applicable to an execution obligation, the discount is distributed proportionally among all execution obligations.

→ Recognition of income as compliance with execution obligations is met: ENDESA recognises income as the amount of the transaction price assigned to an execution obligation as it satisfies this obligation by transferring the committed goods or services to the customer. To this end, ENDESA determines whether the execution obligation is satisfied over time or at a specific time:

a) An obligation is satisfied over time if the following criteria are met:

- > The client receives and simultaneously consumes the benefits provided by ENDESA's activity as it carries it out.
- > ENDESA produces or improves an asset that the customer controls as the asset is produced or improved.
- > ENDESA produces a specific asset for the customer, which can not be given an alternative use, and has an enforceable right to collect the activity carried out so far.

If the execution obligation is complied with over time, ENDESA recognises the corresponding income as it satisfies it, for which it measures the degree of progress of execution of each identified obligation.

b) If an obligation does not meet the conditions to be fulfilled over time, the following indicators are assessed to determine that the control of the asset has been transferred to the customer:

- > ENDESA has transmitted the physical possession of the asset;
- > ENDESA is entitled to demand payment for the asset;
- > The customer has accepted the asset;
- > The customer has the significant risks and benefits inherent to the ownership of the asset; and
- > The customer has the legal ownership of the asset.

If the execution obligation is fulfilled at a specific date, ENDESA recognises the corresponding income.

If the parties agree amend the contract, ENDESA accounts for this amendment as a separate contract if the following 2 conditions are met:

- The scope of the contract increases due to the incorporation of different committed goods or services; and
- The contract price is increased by an amount of the consideration that reflects the independent sale prices of the promised additional goods or services.

Otherwise, the contractual amendment is treated as an adjustment to the original contract, so that, when the amendment consists of new goods or services that are different and not at their usual selling price, the previous contract is cancelled and a new contract is created, but if the amendment consists of new goods or services that are not different, the existing contract is re-assessed.

ENDESA presents the contracts with the customers in the Consolidated Statement of Financial Position as an asset or a liability, depending on the relationship between ENDESA's performance and the payment made by the customer:

- The contract with the customer is presented as a liability of the contract when the customer has paid a consideration before it has transferred the goods or services to the customer, in such a way that there is an obligation on the part of ENDESA to transfer the goods or services to a customer for which it has already received a consideration.
- The contract with the customer is presented as an asset of the contract when ENDESA has transferred goods or services to the customer before the customer has delivered the consideration, so ENDESA has the right to the consideration in exchange for the goods or services that it has transferred to the customer. ENDESA excludes from this amount the amounts presented as accounts receivable.

b) Specific criteria for income recognition by segments

- Generation and Supply Segment.



> Electricity and gas sales: They are recorded as income at the date they are supplied to the customer, depending on the quantities supplied during the period, even when they have not been invoiced and according to the unit price established in the contract. Revenue income includes an estimate of the energy supplied before customers' meters have been read (see Notes 2.2 and 13).

> Electricity sales on the wholesale market. They are recognised as income at the date they are supplied, depending on the electricity supplied and the ancillary services provided.

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).

> Non-mainland Territories generation (TNP): Its remuneration is regulated (see Note 4), essentially based on the operation and availability of the facilities, with part of said remuneration being received with the valuation of the energy sold at the average mainland price, and the rest, up to the remuneration established by the liquidations practised by the Spanish Markets and Competition Commission (CNMC). This income is recognised at the date when electricity sales are made.

→ Distribution.

> Income regulated by the electricity distribution activity: It is recorded pursuant to the regulatory framework of the Electricity Sector in Spain, which establishes the remuneration by Ministerial Order once per year (see Note 4) and is recognised over time. The Spanish Markets and Competition Commission (CNMC) makes arrangements for payment of the acknowledged remuneration to electricity distribution companies.

c) Principal versus Agent

When a third party is involved in providing goods or services to a customer, ENDESA analyses whether the nature

of its commitment is an execution obligation consisting of providing the goods or services itself to the customer (ENDESA acts as principal) or whether its commitment is to organise the supply of those goods or services for the third party (ENDESA acts as agent).

When ENDESA acts as principal, it recognises the revenue for the gross amount of the consideration to which it expects to be entitled in exchange for the goods or services transferred, but when it acts as an agent, it recognises the revenue for the amount of any payment or commission to which it expects to have the right in exchange for arranging the provision of its goods or services for the other party.

o.2. Other income and expenses

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 revenue, as set forth by IFRS 15 "Revenue from contracts with customers".

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

Dividends received from equity instruments are recognised as income at the date the right to receive them arises in the Consolidated Income State.

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.

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) 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: The 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.

q) 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 2018 and 2017, 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).

r) 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).





s) Share-based payment plans

Where ENDESA employees participate in a cash 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).

t) 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 consolidated 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.

4. Industry regulation

However, following the energy reform begun by the government in 2012, on 27 December 2013, Law 24/2013 of 26 December 2013 on the electricity sector was published in the Official State Gazette (BOE), repealing and replacing the aforementioned Law 54/1997, of 27 November 1997, and establishing a new general operating framework for the electricity sector. Therefore, Law 24/2013 of 26 December 2013 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.
- > As of 2014, any timing mismatches arising 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 electricity systems for that year.

→ Concerning remuneration for activities, the law stipulates that remuneration for transmission, distribution and production in non-mainland 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 regu-



latory 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 2013, plus 200 basis points for transmission, distribution and production in non-mainland 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 2013, 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 2012 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.

Along with the provisions above, in 2013 the Government began to process several regulatory implementations on the various activities associated with the supply of electrical energy.

Additionally, as a result of the energy transition process, as well as the adaptation of the functions of the Spanish Markets and Competition Commission (CNMC) to community regulations, the Government has approved certain amendments of the current regime, which are more detailed further on.

Remuneration of the electricity distribution activity

Royal Decree 1048/2013 of 27 December 2013 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 2013 and Law 24/2013 of 26 December 2013. 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 Ecological Transition 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 is established of early construction of a facility, provided it is already envisaged and its cost is not met 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 2013 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 2015, 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, Order IET/980/2016, of 10 June 2016, was published in the Official State Gazette (BOE), which establishes the remuneration of the distribution activity for 2016, assigning ENDESA a remuneration for the development of this activity of Euros 2,032 million (Euros 2,040 million considering the 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 2016.

Meanwhile, in December 2017, the then Ministry of Energy, Tourism and Digital Agenda initiated the processing of the Order by which the remuneration 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.



In relation to the remuneration of the distribution activity for 2018, at the date of formulation of these Consolidated Financial Statements, the processing of the corresponding Ministerial Order is pending.

The amounts recognised in application of this regulation at 31 December 2018 are described in Note 19.1.1 and 25.

Non-mainland electricity systems

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 2012 stipulates that a proposal will be made for a review of the remuneration system for non-mainland generation. Subsequently, Royal Decree-Law 20/2012 of 13 July 2012, on measures to guarantee budgetary stability and promote competition, modified certain specific aspects of recognised costs in the ordinary regime for non-mainland electricity systems, stating that any review, as stipulated in Royal Decree-Law 13/2012 of 30 March 2012, would apply as of 1 January 2012.

On 30 October 2013, Law 17/2013 of 29 October 2013 was published in the Official State Gazette. Its aim is to provide a better guarantee of supply and increase competition in non-mainland 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 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 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 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 systems.

On 1 August 2015, the Spanish Official State Gazette published the Royal Decree 738/2015, of 31 July 2015, on Non-Mainland Territories ("TNP") 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 2018 are described in Note 19.1.1 and 25.

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 2014 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 2013, adopting urgent measures to ensure the finan-



cial stability of the electricity system, and Electricity Industry Law 24/2013, of 26 December 2013.

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 facilities. 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 2014, 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 de-

finied, was published in the Official State Gazette on 20 June 2014.

Lastly, Ministerial Order IET/1459/2014, of 1 August 2014, approving the remuneration parameters and establishing a mechanism for allocating remuneration for new wind and photovoltaic facilities in electrical systems of non-mainland electricity systems, was published in the Spanish Official State Gazette on 5 August 2014.

Ministerial Order ETU/130/2017 of 17 February 2017 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 2018 are described in Note 19.1.1 and 25.

Order TEC/1380/2018, of 20 December 2018, which establishes the bases for granting aids to renewable facilities

Order TEC/1380/2018, of 20 December 2018, was published in the Official State Gazette (BOE) on 25 December 2018. Said Order establishes the conditions for support to be granted for investment in wind and solar power facilities in non-mainland systems (TNP), co-financed with funds from the European Regional Development Fund (ERDF).

On 27 December 2018, the Institute for Energy Diversification and Savings (IDAE) passed a resolution, convening auctions of subsidies for investment in wind facilities in the Canary Islands, with an allocation of Euros 80 million and maximum power of 217 MW.

Renewable energy auction

On 1 April 2017 the Official State Gazette (BOE) published Royal Decree 359/2017 of 31 March 2017, 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 2017, 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, 5.1 and 6.1).

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 2017, 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 2017.

As a result of this auction, which took place in 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded a 339 MW of photovoltaic capacity (see Notes 2.3, 5.1 and 6.1).

Self-consumption

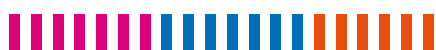
On 10 October 2015, the Official State Gazette published Royal Decree 900/2015, of 9 October 2015, which regulates the administrative, technical and economic requirements for supplying and generating electricity for self-consumption, establishing a regulatory framework which guarantees the economic sustainability of the system and 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.

On 6 October 2018, Royal Decree Law 15/2018, of 5 October 2018 was published, amending certain aspects of the regulation of self-consumption.





Fee for the use of continental waters to generate electricity

On 10 June 2017, Royal Decree Law 10/2017 of 9 June 2017 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 rate for the use of inland waters for the production of electricity, from 22% to 25.5%, adjusting the reduction percentage for installations of up to 50 MW in order to compensate for the increase in the tax rate.

Availability Service

On 23 November 2017, Order ETU/1133/2017, of 21 November 2017, was published, amending Order IET/2013/2013, of 31 October 2013, 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 only to the first half of 2018 and eliminates hydroelectric facilities from the collection of this availability service during this period.

Order TEC/1366/2018, of 20 December 2018, establishing electricity access tariffs for 2019, repealed the incentive for availability of Order ITC/3127/2011, of 17 November 2017, until the capacity mechanisms are reviewed for adaptation to European regulations and the energy transition process.

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 2016.

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 2013 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 2017 and Order ETU/1288/2017, of 22 December 2017, 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 Note 17.3).

In 2017, ENDESA 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 Notes 26 and 30).

On 24 December 2016, Royal Decree-Law 7/2016 of 23 December 2016 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 established the percentage distribution for the Social Bonus to be applied since it came into effect, with 37.7% corresponding to ENDESA in 2017.

7 October 2017 saw the publication of Royal Decree 897/2017, of 6 October 2017, regarding 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 2017, implementing Royal Decree 897/2017 of 6 October 2017.

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 bill.

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).

Furthermore, on 7 April 2018, Order ETU/361/2018, of 6 April 2018, was published, amending the Social Bonus application forms established in Order ETU/943/2017, of 6 October 2017, which implements Royal Decree 897/2017, of 6 October, regulating the figure of the vulnerable consumers, the Social Bonus and other protection measures for domestic consumers of electricity. Furthermore, this Order extends the existing transitional period until 8 October 2018 for consumers of electricity who, on the date of entry into force of Order ETU/943/2017, of 6 October 2017, were beneficiaries of the Social Bonus, to prove the

status of vulnerable consumer in accordance with the provisions of Royal Decree 897/2017, of 6 October 2017. However, under Royal Decree Law 15/2018, of 5 October 2018, if these consumers would have applied for the Social Bonus between 8 October 2018 and 31 December 2018, they could have benefited from it of it at 8 October 2018.

On 21 November 2018, Order TEC/1226/2018, of 13 November 2018 was published in the Official State Gazette (BOE), which sets the distribution percentage of the financing of the 2018 Social Bonus, with 37.15% for ENDESA.

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 2010 and by Royal Decree-Law 29/2012 of 28 December 2012.

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 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 2010, regulated the securitisation of the electricity system deficit generated un-





til 31 December 2012, and Royal Decree 1054/2014, of 12 December 2014, 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 2013 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 (CNMC) in November 2017, 2016 ended with a Euros 421 million surplus.

Additionally, Order ETU/1282/2017, of 22 December 2017, 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, previous years' surpluses may be included as realisable income of the Electricity System up to a maximum of Euros 200 million in 2017 and Euros 500 million for both 2017 and 2018.

Based on the definitive 2017 settlement, approved by the CNMV in November 2018, 2017 ended with a Euros 150 million surplus.

Article 7 of Order TEC/1266/2018, of 20 December 2018, which establishes the electricity access tariffs for 2019, states that the strictly necessary amount of the System's revenue surplus will be used to cover the temporary imbalance that may arise in 2018 and 2019.

The amounts recognised in application of this regulation at 31 December 2018 are described in Note 19.1.1.

Royal Decree 216/2014, of 28 March 2014, 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 2013, 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 Euros/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 2015, 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 Spanish Official State Gazette (BOE) published Royal Decree 469/2016, of 18 November 2016, 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 2014, establishing the procedure for calculating Small Consumer Voluntary Prices for electricity and the legal framework for contracting power.

On 24 December 2016, the Ministerial Order ETU/1948/2016, of 22 December 2016, was published, which

came into force on 1 January 2017, and establishes the trading margin on the Small Consumer Voluntary Price. Through Ministerial Order ETU/258/2017, of 24 March 2017, published on 25 March 2017 and entering into force the following day, a new value has been set for the part of said trading 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.

Order ETU/257/2018 of 16 March 2018 entailed a contribution by ENDESA to the Energy Efficiency National Fund of Euros 29 million, corresponding to its 2018 obligations.

In December 2018, the Ministry of Ecological Transition began to process a proposed Order establishing the contribution to the National Energy Efficiency Fund for 2019, of which ENDESA's share is Euros 28 million.

2018 electricity tariff

Ministerial Order ETU/1282/2017 of 22 December 2017 was published in the Official State Gazette on 27 December 2017, establishing access charges for 2018. Access tariffs remained unchanged in the Order.

2019 electricity tariff

Ministerial Order TEC/1366/2018, of 20 December 2018, establish access tariffs for 2019, was published in the Official State Gazette on 22 December 2018. Access tariffs remained unchanged in the Order.



Public consultation made by the Spanish Markets and Competition Commission (CNMC) on remuneration for regulated activities

On 27 July 2018, the Spanish Markets and Competition Commission (CNMC) opened a public consultation on the calculation methodology used for the remuneration rate in the second regulatory period 2020-2025 for Distribution, Transmission, Non-mainland Systems (TNP) and Renewables. As a result of the same, on 30 October 2018 the Spanish Markets and Competition Commission (CNMC) issued a report in which it proposed remuneration for Distribution, Transmission and Non-mainland Systems (TNP) of 5.58% and for Renewables of 7.09%.

Based on said report, on 28 December 2018 the Ministry of Ecological Transition presented a Draft on Law for the 2020-2025 rate of remuneration. This draft law established remuneration in the 2020-2025 period for transmission, distribution and generation activities in non-mainland systems (TNP) of 5.58% and a rate of return of 7.09% on production from renewable energy sources, cogeneration, and waste. Furthermore, remuneration for renewable facilities under the remuneration regime prior to Royal Decree Law 9/2013, of 12 July 2013, will not be revised in the 2020-2031 period, with the current return of 7,389% being applicable, although compensation payments linked to unappealable court rulings will be deducted via settlements, based on the difference between 7,389% and 7.09%. However, facilities have a right to waive the same and adopt the general system.

Following the presentation of said draft law, the government approved Royal Decree Law 1/2019, of 11 January 2019, detailed below, which likewise includes aspects relative to establishing rates of remuneration.

Law 6/2018, of 3 July 2018, concerning General State Budgets for 2018

On 4 July 2018, Law 6/2018, of 3 July 2018, on the General State Budgets (PGE) for 2018, was published in the Official State Gazette (BOE). Among other aspects, it establishes that surplus income from the system may be used exceptionally in 2018 for compensation payments to settle litigation proceedings referring to Electricity Sector regulations that must be charged against General State Budgets (PGE) or the Electricity System.

These surpluses may equally be used, indefinitely, to pay off debt in the electricity system, or used as income accrued over several years in electricity system settlements. Further, the Law includes a provision that eliminates the need for a compatibility ruling for plants in the non-mainland electricity system that have to make investments to comply with EU or Spanish regulatory requirements in order to continue operating, provided that these plants are necessary to guarantee an efficient supply.

Order TEC/1158/2018, of 29 October 2018, on the additional remuneration system for certain non-mainland electricity systems (TNP)

Pursuant to the introduction of Law 6/2018, of 3 July 2018, and in accordance with the power requirements for each non-mainland system determined by reports from the system operator, Order TEC/1158/2018, of 29 October 2018, was published in the Official State Gazette. The same envisages establishing an additional remuneration system for certain facilities in Gran Canaria, Tenerife and Menorca, based on the investments that must be implemented in order to comply with applicable environmental regulations (see Notes 3e.2, 6.1, 10 and 29).

Royal Decree 1048/2018, of 24 August 2018, on the electricity system shortfall of 2013

On 1 September 2018, Royal Decree 1048/2018, of 24 August 2018, was published in the Official State Gazette (BOE), amending the procedure for calculating the interest to be recognised for financing the electricity system deficit for 2013, so that this interest will be established from the moment the corresponding contributions are made by agents and not just from 1 January of the following year. The total amount payable to the agents that financed the 2013 deficit is Euros 15 million, of which Euros 7 million correspond to ENDESA. The Royal Decree establishes that this methodology will also be applied in the event of any future shortfalls.

Royal Decree Law 15/2018, of 5 October 2018, on urgent measures for the energy transition and consumer protection

On 5 October 2018, the Council of Ministers approved Royal Decree Law 15/2018, of 5 October 2018, on urgent measures for the energy transition and consumer protection, published in the Official State Gazette (BOE) on 6 October 2018. This Royal Decree Law contains a series of urgent measures aimed at providing greater support for vulnerable groups and increase consumer protection through policies that allow tariffs to be more effectively adjusted to consumption. The law also implements measures to speed up the transition to a decarbonised economy based on renewable energies, driving energy efficiency and electric mobility.

The first block of measures is designed to protect vulnerable consumer groups. The number of beneficiaries eligible for the Social Bonus has been extended to include

single-parent families, and families with grade 2 or 3 dependents that fall below certain income thresholds. Further, cases where supply may not be cut off due to lack of payment for vulnerable consumers have been extended to include families approved by the social services with children under the age of 16, or dependents or disabled members, where these amounts will be covered by the groups obliged to fund the Social Bonus. The maximum consumption levels with a right to a discount has also been increased. With regard to beneficiaries of the previous Social Bonus, the renewal period for which ended on 8 October 2018, the Royal Decree Law establishes that those who meet the requirements for the new Social Bonus and apply between 8 October 2018 and 31 December 2018 will be eligible to receive the Bonus from 8 October 2018. Lastly, a thermal Social Bonus has been created for heating, to be funded by the General State Budget. This Royal Decree Law envisages the approval within 6 months of a National Strategy to Combat Energy Poverty. The Ministry of Ecological Transition began a public consultation on the same on 19 December 2018.

A second group of measures is aimed at protecting consumers and includes more flexibility in contracting power, in addition to obliging suppliers to include the amount that customers would have to pay if tariffs with time constraints were applied on their bills.

A third group of measures is designed to promote self-consumption, simplifying the types available and enabling shared self-consumption, while eliminating charges and tolls for self-consumption based on renewables, co-generation or waste. The Royal Decree Law also features measures to simplify administrative and technical processes, especially for small facilities. Developing the provisions of the Royal Decree, the Ministry for Ecological Transition has begun to process a Draft Royal Decree.

The fourth block of measures seeks to increase the penetration of renewable energies and electric mobility. Therefore, to facilitate the commissioning of the renewable power awarded in recent auctions, the access and connection



licences granted prior to Law 24/2013, of 26 December 2013, governing the electricity system, which would have expired on 31 December 2018, have been extended until 31 March 2020. With regard to electric mobility, the load manager role has been abolished to facilitate the deployment of these services.

The last block contains measures associated with fiscal aspects and system sustainability. For the last quarter of 2018 and the first quarter of 2019, the tax on the value of electricity production has been suspended and the special tax on hydrocarbons for electricity generation has been abolished. To ensure the sustainability of the electricity system, income that derives from CO₂ emissions rights auctions used to cover costs in the electricity system has been increased, and the system surplus will be used to reduce imbalances in 2018 and 2019.

Royal Decree Law 15/2018, of 5 October 2018, was approved by Spanish Parliament on 18 October 2018, having been approved for processing as a Draft Law.

Royal Decree Law 25/2018, of 21 December 2018, on urgent measures for a just transition of coal mining and the sustainable development of the mining districts

On 22 December 2018, this Royal Decree Law was published in the Official State Gazette (BOE), which includes certain measures aimed at favouring a just transition and the sustainable development of the mining districts affected by the mine closure process. In addition, the Royal Decree Law incorporates a provision that establishes that in 2019, up to a maximum of Euros 1,000 million will be allocated from the revenues from greenhouse gas emission rights auctions to finance the costs of the Electricity System, and up to a maximum of Euros 100 million for actions of the just transition policy and the fight against climate change.

Royal Decree Law 20/2018, of 7 December 2018, on urgent measures to drive economic competitiveness in the industry and commerce sector in Spain

This Royal Decree Law, published in the Official State Gazette on 8 December 2018, seeks to drive the competitiveness of the industrial sector via action to improve labour productivity, cut energy costs and bolster industrial security. Among other aspects, the Royal Decree Law introduces the concept of closed electricity distribution networks, which are already envisaged in EU regulations, and announced the preparation of a statute for electro-intensive industrial consumers, adapted to their specific requirements. The regulation likewise envisages the extension of the lives of certain high efficiency cogeneration facilities for 2 years.

Royal Decree Law 1/2019, of 11 January 2019, on urgent measures to adjust the duties of the Spanish Markets and Competition Commission (CNMC) to the requirements of EU law in relation to Directives 2009/72/ CE and 2009/73/CE of the European Parliament and Council, of 13 July 2009, on common standards for the internal electricity and natural gas market

12 January 2019 the Official State Gazette published this Royal Decree Law, Intended to adjust the duties of the Spanish Markets and Competition Commission (CNMC) to EU legislation, following requests filed by EU authorities.

According to this Royal Decree Law, the Spanish Markets and Competition Commission (CNMC) will be responsible for approving, via circulars, aspects such as the structure, methodology and specific values of access tariffs for natural gas and electricity transmission and distribution networks, and for liquefied natural gas (LNG) plants; the methodology and parameters for establishing remuneration for the transmission and distribution of gas and electricity, liquefied natural gas plants (LNG), the gas system operator, and remuneration on transmission and distribution within the maximum limit established by the government.

The Ministry for Ecological Transition will approve a series of energy policy guidelines that the Spanish Markets and Competition Commission (CNMC) will have to take into consideration, which will cover aspects such as supply security, the economic and financial sustainability of the system, supply independence, air quality, efforts to combat climate change, demand management, selection of future technologies and rational use of energy. The Ministry of Ecological Transition will have one month to approve the circulars of the Spanish Markets and Competition Commission (CNMC) concerning energy policy, or that have an impact on tariffs, remuneration on regulated activities, access and connection conditions, and the rules for operating the electricity and gas system. In the event of any discrepancy, a Cooperation Committee will work to reach an understanding.

The new duties of the Spanish Markets and Competition Commission (CNMC) will in any case be applicable as of 1 January 2020. Furthermore, any procedures began prior to this Royal Decree Law coming into force, as well as any procedure that, regardless of when it was initiated, refers to years prior to 2019, will be substantiated pursuant to previous regulations.

The Royal Decree Law likewise amends certain aspects of Law 24/2013, of 26 December 2013, on the electricity industry. Regarding the financial rate of remuneration on transmission and distribution, which by virtue of the Royal Decree Law will be established by the Spanish Markets and Competition Commission (CNMC), the government will set in law a maximum threshold for the same, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory

period, plus a spread to be established for each regulatory period. If at the start of the new period said maximum threshold has not been established, the maximum threshold corresponding to the previous period will be extended, or failing this, the rate of remuneration from the previous period will be used.

As for generation operations adhering to the additional remuneration system in non-mainland territories (TNP), the rate of financial remuneration will be set by the government. This rate may be modified before the start of each regulatory period, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory period, plus a spread to be established under law for each regulatory period. If at the start of a new regulatory period said rate of financial remuneration has not been established, that of the previous regulatory period will be deemed to be extended.

Finally, regarding facilities producing electricity from renewable energy sources, high efficiency cogeneration, and waste, using specific remuneration systems, in the review corresponding to each regulatory period the value on which the reasonable rate of return is based over the remaining regulatory life of standard facilities may be amended, and will be established under law.

Gas system

On 22 May, 2015, Law 8/2015, of 21 May 2015, on the hydrocarbons sector was published, which amends Law 34/1998 of 7 October 1998, 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 or-



ganised 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 2015, 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 making it mandatory for the dominant operators, which include ENDESA, to act as market makers.

Natural gas tariff for 2018

Under Order ETU/1283/2017, of 22 December 2017, access tariffs in force in 2017 were largely maintained, having up-

dated the Last Resort Tariffs (LRT) with an average increase of 5% resulting from higher raw material costs.

On 30 June 2018, the Resolution of 28 June 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 July 2018, resulting in an average increase of approximately 3.4%, derived from the increase in the cost of the raw material.

On 29 September 2018, the Resolution of 25 September 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 October 2018, resulting in an average increase of approximately 7.4%, compared to the previous period, derived from the increase in the cost of the raw material.

Natural gas tariff for 2019

On 22 December 2018, Order TEC/1367/2018, of 20 December 2018, establishing access tariffs for gas for 2019, which remained unchanged, and on 28 December 2018, the Resolution of 26 December 2018, publishing the Last Resort Tariffs (LRT) for natural gas applicable from 1 January 2019, implying an average reduction of approximately 4% due to lower raw material costs, were published in the Official State Gazette (BOE).

5. Business Combinations

5.1. 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, in 2018 and 2017 the following corporate transactions were formalised (see Notes 2.3.1, 4 and 6.1):

- 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	% stake at 31 December 2018	% stake at 31 December 2017
			Control	Control
Seguidores Solares Planta 2, S.L.U.	23 November 2017	Photovoltaic	100.00	100.00
Baylio Solar, S.L.U.	15 December 2017	Photovoltaic	100.00	100.00
Dehesa de los Guadalupes Solar, S.L.U.	15 December 2017	Photovoltaic	100.00	100.00
Furatena Solar 1, S.L.U.	15 December 2017	Photovoltaic	100.00	100.00
Valdecaballero Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	—
Navalvillar Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	—
Castiblanco Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	—
Parque Eólico Muniesa, S.L.U.	12 January 2018	Wind	100.00	—
Parque Eólico Farlán, S.L.U.	12 January 2018	Wind	100.00	—
Aranort Desarrollos, S.L.U.	19 January 2018	Wind	100.00	—
Bosa del Ebro, S.L.	21 February 2018	Wind	51.00	—
Tauste Energía Distribuida, S.L.	23 March 2018	Wind	51.00	—
Eólica del Cierzo, S.L.U.	23 March 2018	Wind	100.00	—
San Francisco de Borja, S.A.	23 March 2018	Wind	66.67	—
Energía Eólica Alto del Llano, S.L.U.	11 May 2018	Wind	100.00	—
Sistemas Energéticos Campoliva, S.A.U.	17 July 2018	Wind	100.00	—
Sistemas Energéticos Sierra del Carazo, S.L.U.	18 December 2018	Wind	100.00	—
Sistemas Energéticos Alcohujate, S.A.U.	18 December 2018	Wind	100.00	—



In 2018, the agreed price for all the acquired companies amounted to Euros 5 million (Euros 5 million, with a net cash outflow of Euros 1 million for the company incorporated and the companies acquired in 2017) (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 Consolidated Financial Statement headings:

Millions of Euros			
	Notes	Fair Value	
		2018	2017
Non-current assets		8	6
Property, plant and equipment	6	8	6
Current assets		1	—
Trade and Other Receivables		1	—
Total ASSETS		9	6
Non-current liabilities		1	1
Deferred Tax Liabilities	22.2	1	1
Current Liabilities		3	—
Current Interest-Bearing Loans and Borrowings	3 ¹	—	—
Total Liabilities		4	1
Fair Value of Net Assets Acquired		5	5

¹ Includes Euros 3 million in debts with group companies and associates.

At 31 December 2018 and 2017, the companies acquired in those years secured the permits and licences to carry out their projects and construction work is underway on the power facilities. No revenue has been generated since the acquisition and / or formation date.

In 2018, the gross investments made by these companies amounted to Euros 127 million (see Note 6.1).

5.2. Parques Eólicos Gestinver, S.L.U.

On 3 April 2018, an agreement was signed, through its subsidiary ENEL Green España, S.L.U. (EGPE), for the acquisition of 100% of the share capital of the companies Parques Eólicos Gestinver, S.L.U. and its 100% subsidiary, Parques Eólicos Gestinver Gestión, S.L.U., for Euros 42 million.

Parques Eólicos Gestinver, S.L.U. has installed wind power capacity of 132 MW, distributed across 5 wind farms located in the regions of Galicia and Catalonia.

Through this acquisition, ENDESA reinforces its presence in the Iberian generation market by expanding the portfolio of renewable assets in its production mix.

The net cash outflow from the acquisition of Parques Eólicos Gestinver, S.L.U. was as follows:

Millions of Euros	
	Notes
Cash and cash equivalents of the acquiree	(12)
Net amount paid in cash ^{1, 2}	57
Total	33.2 45

¹ The purchase costs recognised under "Other fixed operating expenses" in the Consolidated Income Statement stood at Euros 1 million.

² Of the this amount, Euros 42 million correspond to the price of the shareholding in the company and Euros 15 million to the subordinated debt held by the company with its former shareholders.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Parques Eólicos Gestinver, S.L.U. under the following items in the Consolidated Financial Statements:

Millions of Euros

	Notes	Fair value
Non-current assets		181
Property, plant and equipment	6	139
Intangible assets	8	34
Deferred tax assets	22.1	8
Current assets		19
Trade and other receivables		5
Current Financial Assets		2
Cash and cash equivalents		12
Total Assets		200
Non-current liabilities		140
Non-current provisions	17.3	1
Non-current financial debt ¹		130
Deferred tax liabilities	22.2	9
Current Liabilities		18
Current Interest-Bearing Loans and Borrowings	18.1	12
Trade payables and other current liabilities		6
Total Liabilities		158
Fair value of net assets acquired		42

¹ Includes bank borrowings amounting to Euros 104 million (see Note 18.1), derivatives amounting to Euros 11 million, and debts to Group companies and associates amounting to Euros 15 million.

In the determination of the fair value of the assets acquired and liabilities assumed, market references and generally accepted valuation methods based on the revenue approach have been taken into account, estimating the expected cash flows of the projects owned by the company in accordance with the current remuneration regime on the date of acquisition.

The assumptions made in the valuation approach for the acquired assets and assumed liabilities of Parques Eólicos Gestinver, S.L.U. determined their classification in Level 3 of the fair value hierarchy as explained in Note 3p.

The contribution by the acquiree was as follows:

Millions of Euros

	3 April 2018 - 31 December 2018 ¹	2018 ²
Revenue	19	27
Profit/(loss) after tax	4	6

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

5.3. Eólica del Principado, S.A.U.

On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60.0% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists in the generation of electricity through renewable wind technology, and on which it previously held a 40.0% stake (see Notes 2.3.1 and 2.4).

As a result of this transaction, ENDESA went from having significant influence to full control of Eólica del Principado, S.A.U. that it maintained to date.

The net cash outflow arising from the acquisition of Eólica del Principado, S.A.U. amounted to less than Euros 1 million (see Note 33.2).

The purchase price was finally allocated, on the basis of the fair value of the assets acquired and the liabilities undertaken (Net Assets Acquired) from Eólica del Principado, S.A.U. on the acquisition date, under the following headings in the consolidated financial statements:

Millions of euros

	Notes	Fair Value
Non-current assets		1
Property, plant and equipment	6	1
Total Assets		1
Fair Value of Net Assets Acquired		1





The contribution by the acquiree was as follows:

Millions of Euros	22 May 2018- 31 December 2018 ¹	2018 ²
Revenue	—	1
Profit/(loss) after tax	—	1

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

The net gain at the date control obtained from measuring the previously held non-controlling interest of 40.0% in Eólica del Principado, S.A.U. at fair value was less than Euros 1 million (see Note 11.1).

5.4. Empresa de Alumbrado Eléctrico de Ceuta, S.A.

On 25 July 2018, ENDESA Red, S.A.U. acquired 94.6% of the share capital of Empresa de Alumbrado Eléctrico de Ceuta, S.A., which includes 100% of Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. and 100% of Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U., for Euros 83 million.

Empresa de Alumbrado Eléctrico de Ceuta, S.A. has more than 30,000 customers and is the leading electricity distribution and supply company in Ceuta, a region where ENDESA carries out electricity generation activities. Therefore, this acquisition is a fit with its strategy to grow in the areas of distribution and supply in Spain and Portugal.

The net cash outflow for the acquisition of Empresa de Alumbrado Eléctrico de Ceuta, S.A. was as follows:

Millions of Euros	Notes
Cash and cash equivalents of the acquiree	(2)
Net amount paid in cash ¹	83
Total	33.2 81

¹ The purchase costs recognised under "Other fixed operating expenses" in the Consolidated Income Statement were less than Euros 1 million.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Empresa de Alumbrado Eléctrico de Ceuta, S.A. under the following items of the Consolidated Financial Statements:

Millions of Euros	Notes	Fair value
Non-current assets		84
Property, plant and equipment	6	66
Investment property	7	4
Intangible assets	8	14
Current assets		9
Trade and other receivables		6
Current financial assets		1
Cash and cash equivalents		2
Total Assets		93
NON-CONTROLLING INTERESTS		4
Non-current liabilities		22
Deferred income	16	15
Non-current provisions	17.1	1
Other non-current Liabilities		1
Deferred tax liabilities	22.2	5
Current liabilities		5
Trade payables and other current liabilities		5
Total Liabilities		27
Fair value of net assets acquired		62

The difference between the cost of the business combination and the fair value of the assets and liabilities recognised gave rise a goodwill of Euros 21 million for the synergies to be obtained in the transaction, based on the optimisation of ENDESA's position in the distribution market of the self-governing city of Ceuta, which will allow cost reductions to be achieved through joint management, improved grid operations and the pooling of processes (see Note 10).

Market references and generally accepted revenue-based valuation techniques were considered in determining the fair value of the assets acquired and liabilities assumed.

The assumptions made in the valuation approach for the acquired assets and assumed liabilities of Empresa de Alumbrado Eléctrico de Ceuta, S.A. determined their classification in Level 3 of the fair value hierarchy as explained in Note 3p.

Subsequently, in November and December 2018, an additional 1.7% of share capital was acquired for Euros 2 million (see Note 33.2) so that, at 31 December 2018, participation in the share capital of Empresa de Alumbrado Eléctrico de Ceuta, S.A. stands at 96.3%. These operations have had a negative effect on the Net Equity of the Minority Interests of Euros 2 million.

The contribution by the acquiree was as follows:

Millions of Euros		
	25 July 2018-31 December 2018 ¹	2018 ²
Revenue	17	39
Profit/(loss) after tax	1	2

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

5.5. 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., formalised with ENEL Iberia, S.L.U. a contract for the acquisition from the latter of its ICT business within the ENDESA sphere (see Note 35.1.2).

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 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 and 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 ICT activity 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 ICT activity determined their classification in Level 3 of the fair value hierarchy as explained in Note 3p.

The difference between the cost of the business combination and the fair value of the recognised assets and liabilities gave rise a goodwill of Euros 161 million (see Note 10) from the expected synergies 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 costs.

The contribution of the ICT activity in 2017 was as follows:

Millions of Euros	
	2017
EBITDA	30
EBIT	12

5.6. 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 (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 and 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. determined their classification in Level 3 of the fair value hierarchy as explained in Note 3p.

In 2017, ordinary income and profit after taxes generated by the company since 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 in 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).

6. Property, plant and equipment

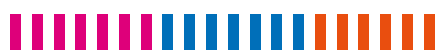
At 31 December 2018 and 2017, the composition and movements of this item of the accompanying consolidated statement of financial position were as follows:

Millions of Euros

Property, plant and equipment in use and under construction	31 December 2018			Total property, plant and equipment
	Cost	Accumulated amortisation/ depreciation	Impairment losses	
Land and buildings	690	(287)	(14)	389
Electricity Generating Facilities:	26,711	(17,729)	(154)	8,828
Hydroelectric Plants	3,321	(2,506)	—	815
Coal-Fired/Fuel-Oil Power Plants	8,285	(6,499)	(154)	1,632
Nuclear power plants	10,095	(7,214)	—	2,881
Combined cycle plants	3,767	(1,395)	—	2,372
Renewable Energy Plants	1,243	(115)	—	1,128
Transmission and Distribution Facilities	21,253	(9,814)	—	11,439
Low- and Medium-Voltage, Measuring and Remote Control Equipment and other Installations	21,253	(9,814)	—	11,439
Other Property, Plant and Equipment	490	(367)	—	123
Property, plant and equipment under construction	1,131	—	(70)	1,061
Total	50,275	(28,197)	(238)	21,840

Millions of Euros

Property, plant and equipment in use and under construction	31 December 2017			Total property, plant and equipment
	Cost	Accumulated amortisation/ depreciation	Impairment losses	
Land and buildings	696	(295)	(15)	386
Electricity Generating Facilities:	26,109	(17,144)	—	8,965
Hydroelectric 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	Balance at 31 December 2017	Inclusions / (Exclusions) Companies ¹	Investments (Note 6.1)	Disposals	Transfers and other ²	Transfers to Investment Property (Note 7)	Balance at 31 December 2018
Land and buildings	696	8	—	(32)	18	—	690
Electricity Generating Facilities:	26,109	139	34	(37)	466	—	26,711
Hydroelectric Plants	3,309	—	—	(1)	13	—	3,321
Coal-Fired/Fuel-Oil Power Plants	8,047	—	5	(9)	242	—	8,285
Nuclear power plants	9,923	—	26	(21)	167	—	10,095
Combined cycle plants	3,763	—	—	—	4	—	3,767
Renewable Energy Plants	1,067	139	3	(6)	40	—	1,243
Transmission and Distribution Facilities	20,848	49	11	(308)	653	—	21,253
Low- and medium-voltage, measuring and remote control equipment and other installations	20,848	49	11	(308)	653	—	21,253
Other Property, Plant and Equipment	578	4	5	(6)	43	(134)	490
Property, plant and equipment under construction	978	14	1,153	—	(1,014)	—	1,131
Total	49,209	214	1,203	(383)	166	(134)	50,275

¹ Corresponds to the acquisition of the new companies relating to capacity awarded (Euros 8 million) (see Note 5.1) Parques Eólicos Gestinver, S.L.U. (Euros 139 million) (see Note 5.2), Eólica del Principado, S.A.U. (Euros 1 million) (see Note 5.3) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 66 million) (see Note 5.4).

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 2017	(Inclusions) / Exclusions Companies	Charges ¹	Disposals	Transfers and other	Transfers to Investment Property (Note 7)	Balance at 31 December 2018
Land and buildings	(310)	—	(18)	31	(4)	—	(301)
Electricity Generating Facilities:	(17,144)	—	(775)	37	(1)	—	(17,883)
Hydroelectric Plants	(2,476)	—	(31)	1	—	—	(2,506)
Coal-Fired/Fuel-Oil Power Plants	(6,255)	—	(407)	9	—	—	(6,653)
Nuclear power plants	(7,045)	—	(189)	21	(1)	—	(7,214)
Combined cycle plants	(1,302)	—	(93)	—	—	—	(1,395)
Renewable Energy Plants	(66)	—	(55)	6	—	—	(115)
Transmission and Distribution Facilities	(9,526)	—	(592)	307	(3)	—	(9,814)
Low- and medium-voltage, measuring and remote control equipment and other installations	(9,526)	—	(592)	307	(3)	—	(9,814)
Other property, plant and equipment in process	(502)	—	(27)	3	4	85	(437)
Total	(27,482)	—	(1,412)	378	(4)	85	(28,435)

¹ Includes the net provision of impairment losses (Euros 153 million) and the depreciation and amortisation charge (Euros 1,259 million) (see Note 29).

Millions of Euros

Property, plant and equipment in use and under construction	Balance at 31 December 2016	Companies added / (Exclusions) Companies 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 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 ICT activity (Euros 64 million) (see Note 5.5), Eléctrica de Jafre, S.A. (Euros 4 million) (see Note 5.6), the new companies relating to capacity awarded (Euros 6 million) (see Note 5.1) and the disposals of Nueva Marina Real Estate, S.L. (Euros 7 million) (see Note 2.3.1) and certain joint operation entities (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	(Additions) / Exclusions Companies ¹	Charges ²	Disposals	Transfers and other	Balance at 31 December 2017
Land and buildings	(349)	-	(16)	27	28	(310)
Electricity Generating Facilities:	(16,672)	-	(585)	27	86	(17,144)
Hydroelectric Plants	(2,478)	-	(30)	2	30	(2,476)
Coal-Fired/Fuel-Oil Power Plants	(6,061)	-	(247)	5	48	(6,255)
Nuclear power plants	(6,895)	-	(163)	13	-	(7,045)
Combined cycle plants	(1,209)	-	(93)	-	-	(1,302)
Renewable Energy Plants	(29)	-	(52)	7	8	(66)
Transmission and Distribution Facilities	(9,084)	3	(571)	165	(39)	(9,526)
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 in process	(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 operation entities (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).





At 31 December 2018 and 2017, property, plant and equipment include the following co-owned assets:

Millions of Euros			
	Co-ownerships		
	% ownership	31 December 2018	31 December 2017
Central Nuclear Vandellós II, C.B.	72%	868	865
Central Nuclear Ascó II, C.B.	85%	657	692
Central Nuclear de Almaraz, C.B.	36%	392	383
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 2018 and 2017 are as follows:

Millions of Euros		
	Investments in property, plant and equipment ¹	
	2018	2017
Generation and supply	585	358
Distribution	609	610
Structure and Other	9	10
Total	1,203	978

¹ Does not include business combinations in the period (see Note 5).

Gross investments in generation during 2018 related largely to investments into the construction of the wind and photovoltaic power capacity awarded in auctions during 2017, amounting to Euros 191 million, of which Euros 127 million correspond to the companies acquired and / or incorporated in relation to renewable auctions (Euros 7 million and Euros 0 million, respectively, in fiscal year 2017) (see Notes 4 and 5.1).

Investments have also been made in plants that were already operational on 31 December 2017, including an investment of Euros 3 million (Euros 39 million in 2017) in the Litoral Thermal Power Plant of Almeria and the Euros 43 million investment (Euros 34 million in 2017) in the Thermal Power Plant of As Pontes, bringing the same into line with the Industrial Emissions Directive (IED).

Gross investments in supply mainly related to the development of the activity related to products and services for Euros 17 million (Euros 21 million in 2017).

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

Environment

In 2018, ENDESA's investment in environmental protection activities totalled Euros 70 million (Euros 110 million in 2017), with accumulated investment at 2018 year-end equal to Euros 1,705 million (Euros 1,635 million at 2017 year-end).

Environmental expenses amounted to Euros 110 million in 2018 (Euros 100 million in 2017). Of this total expenditure, Euros 47 million corresponded to the provision for depreciation of the abovementioned investments (Euros 45 million in 2017).

Impairment test

During the financial year 2018, a net impairment provision of Euros 153 million was recorded (see Notes 29 and 34.2), corresponding in full to generation assets, as detailed below:

- The publication of Order TEC/1158/2018, of 29 October 2018 was published, on the additional remuneration of Non-mainland Territories (TNP) electricity generating facilities required to made additional investments in

order to comply with EU and Spanish regulations to remain in operations, resulting in the exclusion of coal-units of the Thermal Power Plant of Alcudia (Balearic Islands). As a consequence of the non-recognition of this additional remuneration scheme, the Company has filed on 27 December 2018, the request for authorisation to close this units against the General Directorate of Energy and Climate Change of the Balearic Government. Likewise, the publication of said Order has meant a reduction in the estimated useful life of Units 3 and 4 of the Thermal Power Plant of Alcudia (Balearic Islands). As a result, the recoverable amount of these assets turns out to be lower than their book value, and an impairment of Euros 157 million has been recorded (see Note 3e.2).

- Reversal of impairment losses amounting to Euros 3 million corresponding to the provision provided in previous years on renewable assets as a result of an improvement in the expected cash flows.
- Reversal of impairment losses amounting to Euros 1 million of land from Empresa Carbonífera del Sur, S.A. as a result of the appraisals made by third parties.

At 31 December 2018, the recoverable value of these assets is the following:

Millions of Euros	31 December 2018
Alcudia Thermal Power Plant (Balearic Islands)	828
Renewable Assets	4
Land	1
Total	833

In 2017, a net reversal was recorded for the amount of Euros 13 million (see Note 29), corresponding to:

- Generation assets: provision for impairment amounting to Euros 1 million corresponding to ongoing renewable asset projects that ultimately did not go through (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).

The recoverable value of these assets at 31 December 2017 was as follows:

Millions of Euros	31 December 2017
Generation assets	-
Land	48
Total	48

Commitments to purchase property, plant and equipment

At 31 December 2018 and 2017, the breakdown of commitments to purchase property, plant and equipment is as follows:

Millions of Euros	31 December 2018 ^{1, 3}	31 December 2017 ^{2, 3}
Generation and supply	776	250
Distribution	82	114
Other	—	—
Total	858	364

¹ Includes Euros 7 million corresponding to commitments with Group companies (see Note 35.1.2).

² Includes Euros 53 million corresponding to commitments with Group companies (see Note 35.1.2).

³ There are no other commitments with Joint Ventures.

The commitments corresponding to generation assets mainly correspond to investments destined to the production park and will materialise from 2019.

ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded a 540 MW wind power contract and a 339 MW photovoltaic contract in the auctions that were held in 2017 by the Ministry for the Ecological Transition (see Notes 4 and 5.1). On this basis, ENDESA intends to invest approximately Euros 870 million to build the awarded wind power capacity, of which Euros 198 million had



already been realised at 31 December 2018 and Euros 568 million are committed at the same date.

The commitments corresponding to distribution assets include investments aimed at expanding or improving the network, with a focus on digitalising the network, on strengthening and increasing the resilience of assets, on improving service quality and transforming processes and systems.

Geographical areas

At 31 December 2018 and 2017, the detail of property, plant and equipment by geographical areas is as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Spain	21,456	21,320
Portugal	384	407
Total	21,840	21,727

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. In 2018, pay-outs from insurance companies in relation to property damage arising from accidents amounted to Euros 5 million (Euros 2 million in 2017).

Under current legislation in Spain and pursuant to Law 24/2013, of 26 November 2013 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 1,309 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May 2011, 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

On 19 December 2018, ENDESA submitted applications to authorise the closure of the Thermal Power Plants of Compostilla (León) and Teruel (Teruel), to the Directorate General for Energy Policy and Mines of the Ministry for Ecological Transition, and on 27 December 2018 to the Directorate General of Energy and Climate Change of the Balearic Government to request authorisation for the closure of Units 1 and 2 of the Thermal Power Plant of Alcudia (Balearic Islands). At December 31, 2018, the net book value of these plants and the provision for the dismantling thereof recorded in the "Non-Current Provisions" section of the Consolidated Financial Statements amount to Euros 186 million and Euros 211 million, respectively (see Note 17.3).

Fully depreciated property, plant and equipment still in use had a cost of Euros 312 million at 31 December 2018 (Euros 359 million at 31 December 2017).

At 31 December 2018, property, plant and equipment amounting to Euros 103 million (Euros 159 million at 31 December 2017) had been pledged to secure financing received from third parties (see Notes 15.1.12, 18.2.3 and 36.1).

7. Real estate investments

At 31 December 2018 and 2017, 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 2017	Inclusion / (Exclusion) of Companies ¹	Investments	Disposals due to sale	Property, plant and equipment transfers (Note 6)	Balance at 31 December 2018
Real estate investments	9	4	—	—	49	62
Total	9	4	—	—	49	62

¹ Corresponds to the acquisition of Empresa de Alumbrado Eléctrico de Ceuta, S.A. (see Note 5.4).

Millions of Euros

	Balance at 31 December 2016	Inclusion / (Exclusion) of Companies ¹	Investments	Disposals due to sale	Property, plant and equipment transfers	Balance at 31 December 2017
Real estate investments	20	(11)	—	—	—	9
Total	20	(11)	—	—	—	9

¹ Corresponds to the deconsolidation of Nueva Marina Real Estate, S.L. (see Note 2.3.1).

In 2018, the City of Palma de Mallorca gave ENDESA Distribución Eléctrica, S.L.U, the property of the building of the former headquarters of Gas y Electricidad Generación, S.A.U. and its adjacent plots of land, as a result of the ruling of the Higher Court of Justice of the Balearic Islands of 2017. In turn, ENDESA has reclassified these properties from the Tangible Fixed Assets to the Real Estate Investments as a result of the change in the use thereof to obtain income, capital gains, or both.





7.1. Additional information on real estate investments

Geographical areas

As of 31 December 2018 and 2017, the detail of real estate investments by geographical area is as follows:

Millions of Euros	31 December 2018	31 December 2017
Spain	62	9
Portugal	—	—
Total	62	9

Insurance

ENDESA has taken out insurance policies to cover the risk of damage to its real estate investments 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 real estate investments at 31 December 2017 was Euros 69 million (Euros 16 million at 31 December 2017) (see notes 3b and 19.6.2).

At 31 December 2018 and 2017, none of the real estate investments were fully depreciated and there were no restrictions on their sale.

Direct expenses recognised in the 2018 and 2017 consolidated income statements for real estate investments were not material.

At 31 December 2018 and 2017, ENDESA held no contractual obligations to purchase, build or develop any real estate investments, or any obligations concerning repairs, maintenance and improvements.

8. Intangible assets

At 31 December 2018 and 2017, the composition and movements of this item of the accompanying consolidated statement of financial position were as follows:

Millions of Euros

31 December 2018				
	Cost	Accumulated amortisation	Impairment losses	Net amount
Software	1,580	(1,081)	—	499
Concessions	105	(26)	(46)	33
Cost of Customer Acquisition	165	(54)	—	111
Other	890	(178)	—	712
Total	2,740	(1,339)	(46)	1,355

Millions of Euros

31 December 2017				
	Cost	Accumulated amortisation	Impairment losses	Net amount
Software	1,425	(965)	—	460
Concessions	105	(24)	(52)	29
Other	837	(130)	—	707
Total	2,367	(1,119)	(52)	1,196

Millions of Euros

	Balance at 31 December 2017	Adjustments due to Changes in Accounting Policies IFRS 15 (Note 2.1)	Inclusion/ (Exclusion) of companies ¹	Investments (Note 8.1)	Depreciation, amortisation, and impairment losses ²	Balance at 31 December 2018
Software	460	—	—	155	(116)	499
Concessions	29	—	—	—	4	33
Cost of Customer Acquisition	—	95	—	70	(54)	111
Other	707	—	48	6	(49)	712
Total	1,196	95	48	231	(215)	1,355

(1) Corresponds to the acquisition of Parques Eólicos Gestinver, S.L.U. (Euros 34 million) (see Note 5.2) and Empresa de Alumbrado Electrico de Ceuta (Euros 14 million) (see Note 5.4).

(2) Includes the net reversal of impairment losses (Euros 6 million) and the depreciation and amortisation charge (Euros 221 million) (see Note 29).





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	Balance at 31 December 2017
Software	409	29	123	(101)	—	460
Concessions	22	—	—	7	—	29
Other	741	—	10	(48)	4	707
Total	1,172	29	133	(142)	4	1,196

¹ Corresponds to the acquisition of the ICT activity (Euros 30 million) (see Note 5.5) and the disposal of certain joint operation entities (Euros 1 million) (see Note 2.5.1).

² Includes the net reversal of impairment losses (Euros 8 million) and the depreciation and amortisation charge (Euros 150 million) (see Note 29).

8.1. Additional information on intangible assets

Additions/reductions of companies

In 2018, as a result of the acquisition of Parques Eólicos Gestinver, S.L.U. and Empresa de Alumbrado Eléctrico de Ceuta, SA, the “Other” heading recorded an increase of Euros 34 million and Euros 14 million, respectively, due to the assignment of the purchase price to the intangible assets corresponding, basically, to the authorisations for the use of wind farms in the case of Parques Eólicos Gestinver, S.L.U. and the value of relations with customers and the brand in the case of Empresa de Alumbrado Eléctrico de Ceuta, S.A. (see Notes 5.2 and 5.4).

In 2017, as a result of the acquisition of the systems and telecommunications activity (ICT) from ENEL Iberia, S.L.U., the “Software” section recorded an increase of Euros 30 million (see Note 5.5).

Main investments

Details of investments in intangible assets in 2018 and 2017 are as follows:

	Investments in Intangible assets ¹	
	2018	2017
Generation and supply	140	48
Distribution	61	47
Structure and Other	30	38
Total	231	133

¹ Does not include business combinations in the period (see Note 5).

Gross investments in intangible assets in 2018 mainly correspond to IT applications and ongoing investments in ICT activities for the sum of Euros 155 million, among which are those associated with the strategic objective of digitalisation, and the capitalisation of incremental costs incurred corresponding to the acquisition of customer contracts for the sum of Euros 70 million (see Note 2.1).

Investments in 2017 correspond, mainly to software and ongoing investments in the ICT activity, including the modifications of the ERP system to the new Evolution for Energy (E4E) SAP.

Impairment test

During 2018, an impairment loss reversal amounting to Euros 6 million was recognised (see Notes 29 and 34.2), which chiefly 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 8 million in 2017). The recoverable amount of this concession at 31 December 2018 is Euros 36 million (Euros 30 million at 31 December 2017).

Commitments to purchase intangible assets

At 31 December 2018 and 2017, the breakdown of commitments to purchase intangible assets, mainly software, is as follows:

Millions of Euros		
	31 December 2018¹	31 December 2017 ¹
Generation and supply	11	4
Distribution	3	-
Other	15	3
Total	29	7

¹ None of these amounts have been committed with Group companies nor correspond to joint ventures.

Geographical areas

At 31 December 2018 and 2017, the detail of intangible assets by geographical areas is as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Spain	1,355	1,196
Portugal	—	—
Total	1,355	1,196

Other information

Fully amortised intangible assets still in use had a cost of Euros 74 million at 31 December 2018 (Euros 71 million at 31 December 2017).



9. Leases

9.1. Finance leases

Lessee

At 31 December 2018, the most significant finance leases signed 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 (17 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 9 years.

→ The remaining leases of these characteristics are mainly finance lease operations for vehicles.

At 31 December 2018 and 2017, property, plant and equipment included Euros 411 million and Euros 437 million, respectively, reflecting the carrying amount of assets held under finance leases.

Future lease payments on these agreements and their current value at 31 December 2018 and 2017 are as follows:

Millions of Euros

Term	Notes	Future payments envisaged		Present value of future payments envisaged	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Up to one year		51	50	22	23
Between one year and five years		199	187	94	90
More than five years		483	505	338	362
Total		733	742	454	475
Interest		(279)	(267)	N/A	N/A
Total	18.1	454	475	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 2018 and 2017, ENDESA had entered into no finance lease agreements where it acts as lessor.

9.2. Operating leases

Lessee

At 31 December 2018, the most significant operating leases signed by ENDESA where 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 10 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. are located. (EGPE). These are long term agreements, with automatic renewal clauses and expiry dates between 2019 and 2065. The prices in these agreements are calculated in accordance with the capacity installed (MW) and the production (GWh).
- Agreements for technical equipment to cover one-off services according to operating 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 2019 and 2066.

The 2018 consolidated income statement includes Euros 33 million (Euros 35 million in 2017) 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 2017).

Future lease payments on these agreements at 31 December 2018 and 2017 are as follows:

Millions of Euros		
Term	31 December 2018	31 December 2017
Up to one year	29	28
Between one year and five years	97	106
More than five years	101	103
Total	227	237

Lessor

At 31 December 2018, the most significant operating lease agreements in which ENDESA acts as the lessor are those that ENDESA Energía, S.A.U. has formalised relating to contracts with third parties, corresponding to fixed assets, for the supply other products and services.

Future lease collections on these agreements at 31 December 2018 and 2017 are as follows:

Millions of euros		
	31 December 2018	31 December 2017
Within one year	3	3
Between one year and five years	14	14
More than five years	3	5
Total	20	22

Rental income recognised in 2018 totalled Euros 6 million (Euros 11 million in 2017).





10. Goodwill

At 31 December 2018 and 2017, 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 2017	Business combinations (Note 4)	Impairment Losses (Notes 3e.2, 29 and 34.2)	Balance at 31 December 2018
ENEL Green Power España, S.L.U. (EGPE) ¹	296	—	—	296
Eléctrica del Ebro, S.A.U. ²	2	—	—	2
Systems and telecommunication activity (ICT) ³	161	—	(1)	160
Empresa de Alumbrado Eléctrico de Ceuta, S.A. ²	—	21	—	21
Total	459	21	(1)	479

¹ Assigned to the Iberian Peninsula Generation Cash-Generating Unit (CGU) (see Note 34.2).

² Assigned to the Distribution Cash-Generating Unit (CGU) (see Note 34.2).

³ Assigned to the Iberian Peninsula Generation Cash-Generating Unit (CGU) (Euros 79 million), Generation in Non-mainland Territory of Canarias (TNP) (Euros 3 million), Distribution CGU (Euros 74 million) and ENDESA, S.A. (Euros 4 million) (see Note 34.2).

Millions of Euros

	Balance at 31 December 2016	Business combinations (Note 5.5)	Impairment losses	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 telecommunication activity (ICT) ³	—	161	—	161
Total	298	161	—	459

¹ Assigned to the Iberian Peninsula Generation Cash-Generating Unit (CGU) (see Note 34.2).

² Assigned to the Distribution Cash-Generating Unit (CGU) (see Note 34.2).

³ Assigned to the Iberian Peninsula Generation Cash-Generating Unit (CGU) (Euros 79 million), Generation in Non-mainland Territory of Baleares (TNP) (Euros 1 million), Generation in Non-mainland Territory of Canarias (TNP) (Euros 3 million), Distribution CGU (Euros 74 million) and ENDESA, S.A. (Euros 4 million) (see Notes 5.5 and 34.2).

Total goodwill relates to the geographical area of Spain.

On 25 July 2018, ENDESA Red, S.A.U. fully acquired Empresa de Alumbrado Eléctrico de Ceuta, S.A. This transaction created Euros 21 million in goodwill (refer to Note 5.4).

The acquisition of the ICT activity 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 5.5).

At 31 December 2018, 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, assumptions and sensitivity analysis considered to perform these impairment tests are indicated in Note 3e.2.

As a result of the impairment shown in Note 3e.2, an impairment of goodwill of Euros 1 million has been charged (see Notes 6.1 and 29).

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 2018 and 2017 are as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Associates	80	77
Joint ventures	169	128
Total	249	205

The full list of investees over which ENDESA has significant influence is provided in Appendix II of these consoli-

dated financial statements. These companies do not have publicly listed share prices.

At 31 December 2018 and 2017 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 Note 15.1.12).

ENDESA did not have any significant contingent liabilities related to associates or joint ventures at 31 December 2018 and 2017.

Loans and guarantees granted to associates and joint ventures at 31 December 2018 and 2017, as well as related transactions therewith in 2018 and 2017 are detailed in Notes 19.1.1 and 35.2.

At 31 December 2018 and 2017, 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 2017	Additions/ Reductions of companies	Investments or Increases	Disposals or Reductions	Share of profit/(loss) of equity- accounted investees	Dividends	Translation Differences	Transfers and other	Balance at 31 December 2018
Associates	77	—	—	—	7	(4)	—	—	80
Tecnatom, S.A.	30	—	—	—	—	—	—	—	30
Elcogas, S.A.	—	—	—	—	—	—	—	—	—
Gorona del Viento El Hierro, S.A.	11	—	—	—	—	—	—	—	11
Boiro Energía, S.A.	9	—	—	—	1	(1)	—	—	9
Compañía Eólica Tierras Altas, S.A.	12	—	—	—	1	(2)	—	—	11
Other	15	—	—	—	5	(1)	—	—	19
Joint ventures	128	37	—	—	28	(24)	1	(1)	169
Tejo Energia - Produção e Distribuição de Energia Elétrica, S.A.	73	—	—	—	7	(9)	—	—	71
Front Marítim del Besòs, S.L.	—	37	—	—	—	—	—	—	37
Nuclenor, S.A.	—	—	—	—	4	—	—	(4)	—
Énergie Électrique de Tahadart, S.A.	30	—	—	—	2	(5)	1	—	28
Suministradora Eléctrica de Cádiz, S.A.	13	—	—	—	2	(5)	—	—	10
Other	12	—	—	—	13	(5)	—	3	23
Total	205	37	—	—	35	(28)	1	(1)	249

Millions of Euros

	Balance at 31 December 2016	Additions/ Reductions of companies	Investments or Increases	Disposals or Reductions	Share of profit/(loss) of equity- accounted investees	Dividends	Translation Differences	Transfers and other	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 Elétrica, S.A.	70	—	—	—	10	(8)	—	1	73
Nuclenor, S.A.	—	—	38	—	(48)	—	—	10	—
Énergie Électrique de Tahadart, 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

Associates

Information at 31 December 2018 and 2017 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 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Non-current assets	67	74	—	1	80	80	5	4	27	29
Current assets	51	59	28	31	27	28	22	29	8	6
Cash and cash equivalents	13	2	25	29	23	23	4	7	8	1
Other current assets	38	57	3	2	4	5	18	22	—	5
Total assets	118	133	28	32	107	108	27	33	33	35
Equity	65	65	(111)	(109)	49	50	21	21	28	32
Non-current liabilities	24	25	129	130	54	54	2	2	2	2
Non-current Interest-Bearing Loans and Borrowings	23	23	129	129	21	21	—	—	—	—
Other Non-current Liabilities	1	2	—	1	33	33	2	2	2	2
Current Liabilities	29	43	10	11	4	4	4	10	5	1
Current Interest-Bearing Loans and Borrowings	9	11	—	—	2	2	—	—	—	—
Other current liabilities	20	32	10	11	2	2	4	10	3	1
Total equity and liabilities	118	133	28	32	107	108	27	33	35	35

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.	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	97	57	5	1	—	23	23	22	12	11
Depreciation and amortisation, and impairment losses	(9)	(6)	—	—	—	(3)	—	—	(2)	(3)
Financial income	—	—	—	—	—	—	1	—	—	—
Financial expense	—	—	—	—	—	(1)	—	—	—	—
Profit/(loss) before tax	—	(9)	(2)	(1)	—	15	2	5	4	2
Income Tax Expense	—	—	—	—	—	(2)	—	(1)	(1)	(1)
Profit/(loss) from continuing operations	—	(9)	(2)	(1)	—	13	2	4	3	1
Profit/(loss) after tax from discontinued operations	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Total Comprehensive Income	—	(9)	(2)	(1)	—	13	2	4	3	1





These figures correspond to information on the individual companies, except for Tecnatom, S.A. which correspond to their consolidated financial statements.

Eólica del Principado, S.A.U.

On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists of the generation of electricity through renewable wind technology, and in which it previously held a 40% stake.

As a result of this transaction, ENDESA went from having significant influence to full control of Eólica del Principado, S.A.U. (see Notes 2.3.1, 2.4 and 5.3)

The net gain at the date control obtained from measuring the previously held non-controlling interest of 40% in Eólica del Principado, S.A.U. at fair value was less than Euros 1 million, as shown below (see Note 5.3):

Millions of euros	
Fair value of net assets acquired (100%)	1
Fair value of net assets acquired (40%)	1
Value of shareholding in Eólica del Principado, S.A.U. Prior to takeover (40%)	—
Net gain generated by the measurement at fair value of the non-controlling interest of 40%	1

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 a 47.46% stake 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 2.3.1, 2.4 and 5.6).

The net gain at the date control obtained from measuring the previously held non-controlling interest of 47.46% in Eléctrica de Jafre, S.A. at fair value was less than Euros 1 million, as shown below (see Note 5.6):

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. Prior to takeover (47.46%)	—
Net gain generated by the measurement at fair value of the non-controlling interest of 47.46%	1

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, the Ministry of Energy, Tourism and Digital Agenda (currently the Ministry for the Ecological Transition) rejected the proposed plan and therefore, given the lack of a feasibility plan, on 21 January the Board of Directors of Elcogas, S.A. agreed to proceed with the disconnection and closure of the plant before the deadline set by the aforementioned Ministry (currently the Ministry for the Ecological Transition).

At 31 December 2018 and 2017, ENDESA has recorded a provision to cover estimated costs incurred by the company for the closure of the plant described above for an amount of 55 million euros (see Note 17.3).

Joint ventures

Information at 31 December 2018 and 2017 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.		Front Marítim del Besòs, S.L.		Nuclenor, S.A.		Énergie Électrique de Tahhadart, S.A.		Suministradora Eléctrica de Cádiz, S.A.	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017 (1)	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Non-current assets	203	250	—	—	32	43	91	93	70	71
Current assets	163	149	164	—	61	111	11	28	6	24
Cash and Cash Equivalents	74	86	2	—	1	1	1	7	5	6
Other current assets	89	63	162	—	60	110	10	21	1	18
Total assets	366	399	164	—	93	154	102	121	76	95
Equity	168	168	152	—	(23)	3	85	94	29	38
Non-current liabilities	71	129	—	—	51	91	8	10	21	23
Non-current Interest- Bearing Loans and Borrowings	45	99	—	—	—	—	8	10	8	5
Other Non-current Liabilities	26	30	—	—	51	91	—	—	13	18
Current Liabilities	127	102	12	—	65	60	9	17	26	34
Current Interest- Bearing Loans and Borrowings	54	50	12	—	—	—	—	—	13	12
Other current liabilities	73	52	—	—	65	60	9	17	13	22
Total equity and liabilities	366	399	164	—	93	154	102	121	76	95

¹ It was not part of the consolidation perimeter (see Note 2.5.2).



Millions of Euros

	Income Statement									
	Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.		Front Marítim del Besòs, S.L.		Nuclenor, S.A.		Énergie Électrique de Tahhadart, S.A.		Suministradora Eléctrica de Cádiz, S.A.	
	2018	2017	2018	2017 ¹	2018	2017	2018	2017	2018	2017
Revenue	234	267	—	—	11	9	35	56	10	5
Depreciation and amortisation, and impairment losses	(56)	(55)	—	—	(3)	(3)	(14)	(13)	(2)	(1)
Financial income	—	—	—	—	1	—	—	—	—	—
Financial expense	(1)	(1)	—	—	(1)	(1)	—	(1)	—	—
Profit/(loss) before tax	30	34	—	—	(24)	(34)	7	30	6	3
Income Tax Expense	(9)	(11)	—	—	—	—	(2)	(9)	—	—
Profit/(loss) from continuing operations	21	23	—	—	(24)	(34)	5	21	6	3
Profit/(loss) after tax from discontinued operations	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	(2)	1	2	(5)	—	—
Total Comprehensive Income	21	23	—	—	(26)	(33)	7	16	6	3

¹ It was not part of the consolidation perimeter (see Note 2.5.2).

Details of these joint ventures' equity correspond to information on the individual companies.

Front Marítim del Besòs, S.L.

On 18 December 2018, ENDESA Generación, S.A.U. acquired a 61.37% stake in Front Marítim del Besòs, S.L. from Metrovacesa, S.A. for Euros 1,841 (see Notes 2.3.2 and 2.5.2).

On the same date, ENDESA Generación, S.A.U. and Metrovacesa, S.A., as partners of Front Marítim del Besòs, S.L., agreed to carry out a capital increase via a non-monetary contribution in proportion to their percentage holdings, whereby ENDESA Generación, S.A.U. contributed certain plots of land it owned in the Tres Chimeneas area in Sant Adrià del Besòs (Barcelona) valued at Euros 92 million, producing a gross gain of Euros 34 million (see Note 31).

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 ETU/754/2017, of 1 August 2017 was published in the Official State Gazette (BOE), rejecting the renewal of the operating licence for the Santa María de Garoña Nuclear Plant (Burgos). 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 2017. 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, based on what has been explained in the previous paragraphs, Santa Maria de Garoña, the main asset of Nuclenor, S.A., has not been in operation in 2018 and 2017 and is in a pre-dismantling phase until it is transferred to ENDESA to carry out its dismantling, which will conclude with the release of the site.

“Non-current Provisions” under liabilities in the Consolidated Statement of Financial Position at 31 December 2018 and 2017 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 2018 and 2017 includes a positive impact of Euros 4 million and a negative impact of Euros 48 million, respectively, arising from the holding in 50% of Nuclenor, S.A., for the recognition of this provision.

Remaining companies

At 31 December 2018 and 2017, 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	
	2018	2017	2018	2017
Profit/(loss) from continuing operations	5	6	24	23
Profit/(loss) after tax from discontinued operations	—	—	—	—
Other comprehensive income	—	1	4	13
Total Comprehensive Income	5	7	28	36



11.2. Joint operation entities

At 31 December 2018 and 2017 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 2018	31 December 2017
Non-current assets	123	102
Current assets	119	135
Cash and Cash Equivalents	—	—
Other current assets	119	135
Total assets	242	237
Equity	16	16
Non-current liabilities	133	110
Non-current Interest-Bearing Loans and Borrowings	—	—
Other Non-current Liabilities	133	110
Current Liabilities	93	111
Current Interest-Bearing Loans and Borrowings	—	—
Other current liabilities	93	111
Total equity and liabilities	242	237

Millions of Euros		
	Income Statement	
	Asociación Nuclear Ascó-Vandellós II, A.I.E.	
	2018	2017
Revenue	248	224
Depreciation and amortisation, and impairment losses	—	—
Financial income	—	—
Financial expense	(2)	(2)
Profit/(loss) before tax	18	(15)
Income Tax Expense	—	—
Profit/(loss) from continuing operations	18	(15)
Profit/(loss) after tax from discontinued operations	—	—
Other comprehensive income	(18)	15
Total Comprehensive Income	—	—

The breakdown of cash flows generated by the joint operation entities in the years ended 31 December 2018 and 2017 is as follows:

Millions of Euros		
	2018	2017
Net cash flow from operating activities	41	(30)
Net cash flows from investing activities	(41)	30
Net cash flows from financing activities	—	—

At 31 December 2018 and 2017, ENDESA has not incurred any significant contingent liabilities related to the joint operation entities.

12. Inventories

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros	31 December 2018	31 December 2017
Fuel stocks	784	756
Coal	235	253
Nuclear fuel	293	303
Fuel Oil	85	80
Gas	171	120
Other Inventories	286	225
Carbon dioxide emission allowances (CO ₂)	411	292
Valuation Adjustments	(8)	(6)
Total	1,473	1,267

At 31 December 2018, 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 359 million (Euros 215 million at 31 December 2017) (see Note 24).

At 31 December 2018, future commitments to purchase CO₂ emission rights, CERs and ERUs amounted to Euros 102 million (Euros 66 million at 31 December 2017) in accordance with the agreed prices if all the projects are completed successfully.

Of this amount, Euros 101 million were committed with Group Companies at 31 December 2018 (Euros 65 million at 31 December 2017) (see Note 35.1.2).

12.1. Carbon dioxide emission allowances (CO₂)

In 2018 and 2017, the carbon dioxide (CO₂) emission rights for 2017 and 2016 were redeemed, which resulted in a reduction of Euros 215 million and Euros 188 million, respectively (34.8 million tons and 29.4 million tons, respectively).

12.2. Commitments to acquire inventories

At 31 December 2018, electricity and fuel stock purchase commitments amounted to Euros 17,144 million (Euros 18,673 million at 31 December 2017), of which a portion corresponds to agreements that have "take or pay" clauses.





At 31 December 2018, the breakdown of future commitments to purchase commodities is the following:

Millions of Euros

	Future purchase commitments at 31 December 2018 ¹					Total
	Electricity	Nuclear fuel	Fuel Oil	Gas	Other	
2019-2023	39	362	382	7,405	288	8,476
2024-2028	—	—	—	6,031	—	6,031
2029-2033	—	—	—	2,637	—	2,637
Total	39	362	382	16,073	288	17,144

¹ None of these amounts have been committed with Group companies nor correspond to joint ventures.

At 31 December 2018 and 2017, 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 2018 and 2017, 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 2018 and 2017 are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Trade Receivables	19	2,479	2,631
Trade receivables		2,578	2,720
Electricity Trade Receivables		1,872	2,201
Gas Trade Receivables		525	372
Receivables from other Transactions		109	120
Receivables from Group companies and associates	35.1.3 and 35.2	72	27
Assets from Contracts with Customers:		12	12
Other Receivables		363	349
Other Receivables from Third Parties		319	310
Other Group Companies and Associates	35.1.3 and 35.2	44	39
Valuation Adjustments		(474)	(450)
Trade receivables		(387)	(364)
Assets from Contracts with Customers:		-	-
Other Receivables		(87)	(86)
Derivatives¹	19.3	228	160
Hedging derivatives		140	97
Derivatives not designated as hedging instruments		88	63
Tax Assets		248	309
Current Income Tax		173	223
Value Added Tax (VAT) Receivable		63	42
Other Taxes		12	44
Total		2,955	3,100

¹ Includes Euros 124 million with Group Companies and Associates (Euros 107 million with Group Companies, Associates and Joint Ventures at 31 December 2017) (see Notes 35.1.3 and 35.2).

Balances included under this caption do not generally earn interest.





At 31 December 2018 and 2017, no one customer has balances payable to ENDESA that are significant with respect to ENDESA's total revenues or receivables (see Note 20.6).

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 2018, the cumulative balances of unbilled power and gas sales are recognised under Trade and other receivables side of the accompanying statement of financial position and total Euros 896 thousand and Euros 429 thousand respectively (Euros 1,021 thousand and Euros 433 thousand at 31 December 2017). In addition, this power is associated with estimated unbilled electricity and gas grid access tariffs of Euros 282 million and Euros 129 million, respectively (Euros 358 million and Euros 161 million, respectively, at 31 December 2017).

At 31 December 2018 and 2017, the current assets of contracts with customers mainly correspond to contracts for the execution of works formalised between ENDESA Ingeniería, S.L.U. and Red Eléctrica de España, S.A.U. (REE) valid until year 2025. In 2018, these assets generated revenues amounting to Euros 83 million recorded in the "Sales" section of the Consolidated Income Statement.

As of 31 December 2018 ENDESA has formalized future commitments for the provision of services amounting to Euros 40 million linked to the execution of works contracts signed with Red Eléctrica de España, S.A.U. (REE) (Euros 105 million as of 31 December 2017).

During fiscal year 2018, the movement of current assets of contracts with customers is as follows:

Millions of Euros	
	2018
Initial Balance	12
Imputation to Results	83
Derecognitions	(83)
Final Balance	12

13.1. Other information

Average Collection Period

The average collection period for trade receivables was 30 days in 2018 and 30 days in 2017. Therefore, fair value does not differ significantly from carrying amount.

Valuation Adjustments

The movement in Valuation adjustments in 2018 and 2017 is as follows:

Millions of Euros			
	Notes	2018	2017
Opening Balance		450	416
Adjustments due to Changes in Accounting Policies IFRS 9 Financial Instruments	2.1	33	—
Adjusted Opening Balance		483	416
Charges	19.4.1, 29 and 34.2	79	182
Applications		(88)	(148)
Closing balance		474	450

At 31 December 2018 and 2017 virtually all valuation adjustments relate to trade receivables for sales of electricity.

Other information

At 31 December 2018 and 2017, there are no significant restrictions on the use of collection rights of this nature.

Factoring transactions were carried out in 2018 and 2017. The undue balances at 31 December 2018 and 2017, amounted to Euros 704 million and Euros 756 million, respectively, which were derecognised from the consolidated statement of financial position. These transactions were recognised at a cost of Euros 35 million and 27 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 2018 and 2017 are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Cash in Hand and at Banks		244	399
Cash Equivalents		—	—
Total	19	244	399

Details at 31 December 2018 and 2017 by currency are as follows:

Millions of Euros			
	Notes	Currency	
		31 December 2018	31 December 2017
Euro		242	398
US dollar (USD)	20.2	1	1
Sterling Pound (GBP)	20.2	1	—
Total		244	399

There were no investments in sovereign debt at 30 December 2018 and 2017.

At 31 December 2018, the balance of cash and cash equivalents includes Euros 9 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 12 million at 31 December 2017).





15. Equity

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Total Equity of the Parent	15.1	9,037	9,096
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		(67)	(52)
Translation Differences		1	-
Unrealised valuation adjustments	15.1.6	(68)	(52)
Reserve for actuarial gains and losses	15.1.7	(686)	(657)
Retained earnings	15.1.8	8,407	8,422
Interim dividend	15.1.9	(741)	(741)
Total Equity of Non-controlling Interests	15.2	144	137
total equity		9,181	9,233

15.1. Equity: Of the Parent

15.1.1. Share capital

At 31 December 2018, 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 1.2 each, subscribed and fully paid and all admitted to trading on the Spanish Stock Exchanges. There were no changes in share capital in 2018 and 2017.

At 31 December 2018 and 2017, 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 2018, Euros 46 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 49 million at 31 December 2017).

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 2018 and 2017, 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 2018, Euros 296 million are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 314 million at 31 December 2017).

15.1.5. Other reserves

At 31 December 2018 and 2017, this section 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 2018 and 2017 is as follows:



Millions of Euros						
	31 December 2017	Changes in the Scope	Change in market value	Amount taken to income	Other Transactions with Shareholders or Owners	31 December 2018
Cash Flow Hedges	(9)	—	41	(58)	—	(26)
Interest rate derivatives	—	—	—	—	—	—
Exchange rate derivatives	(24)	—	62	4	—	42
Commodities derivatives	15	—	(21)	(62)	—	(68)
Companies Accounted for using the Equity Method	(44)	—	1	—	—	(43)
Other valuation adjustments	1	—	—	—	—	1
Total	(52)	—	42	(58)	—	(68)

Millions of Euros						
	31 December 2016	Changes in the Scope	Change in market value	Amount taken to income	Other Transactions with Shareholders or Owners	31 December 2017
Cash Flow Hedges	7	—	65	(81)	—	(9)
Interest rate derivatives	(22)	—	22	—	—	—
Exchange rate derivatives	7	—	(45)	14	—	(24)
Commodities derivatives	22	—	88	(95)	—	15
Companies Accounted for using the Equity Method	(47)	—	1	2	—	(44)
Other valuation adjustments	1	—	—	—	—	1
Total	(39)	—	66	(79)	—	(52)

15.1.7. Reserve for actuarial gains and losses

At 31 December 2018 and 2017, this reserve derives from actuarial gains and losses recognised in equity (see Note 17.1).

The merger reserve stems from the restructuring of the Company, and its balance at 31 December 2018 amounts to Euros 667 million, Euros 99 million of which are undistributable because they are subject to certain tax benefits (Euros 667 million and Euros 104 million respectively at 31 December 2017).

15.1.8. Retained earnings

Details of the Company's reserves at 31 December 2018 and 2017 are as follows.

Millions of Euros		
	31 December 2018	31 December 2017
Voluntary reserves	703	703
Merger reserve	667	667
Other unrestricted reserves	36	36
Other retained earnings	7,704	7,719
Total	8,407	8,422

15.1.9. Dividends

2018

At its meeting held on 20 November 2018, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2018 profit of Euro 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2019 (see Note 23). This interim dividend was deducted from the parent's equity at 31 December 2018.

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 state-

ment of ENDESA, S.A., which shows the existence of sufficient liquidity for the distribution of said dividend is as follows:

Millions of Euros		From 1 November 2018 to 31 October 2019
Available at start of period		2,592
Cash in hand and at banks, and cash equivalents		95
Available loans with group companies		2,497
Increases in cash		2,141
Ordinary activities		295
Financial transactions		1,846
Decreases in cash		(3,018)
Ordinary activities		(345)
Financial transactions		(2,673)
Available at end of period		1,715
Proposed interim dividend on 2018 results		741

This amount does not exceed the earnings obtained by ENDESA, S.A. in 2018, 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.

2017

Approval was given at ENDESA, S.A.'s General Shareholders' Meeting of 23 April 2018 to pay shareholders a total dividend charged against 2017 profit for a gross amount of Euros 1.382 per share (Euros 1,463 million in total). The breakdown of these dividends is as follows:

Million Euros				
	Approval date	Euros per share, gross	Amount	Payment date
interim dividend	21 November 2017	0.70	741 ¹	2 January 2018
Final dividend	23 April 2018	0.682	722	2 July 2018
Total dividend paid against 2017 profit		1.382	1,463²	

¹ See Note 23.

² See Note 33.3.



15.1.10. Gains and losses recognised in the consolidated statement of other comprehensive income

The composition at 31 December 2018 and 2017, 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 2017				Changes in 2018				31 December 2018		
	Total	Of the Parent	Of the non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax Effect	Changes in the consolidation scope	Other Transactions with Shareholders or Owners	Total	Of the Parent	Of Non-Controlling Interests
Items that can be Reclassified to Profit or Loss:	(53)	(53)	—	56	(77)	6	—	—	(68)	(68)	—
From Measurement of Financial Instruments	—	—	—	—	—	—	—	—	—	—	—
Financial Assets at fair value	—	—	—	—	—	—	—	—	—	—	—
Other income/(Expenses)	—	—	—	—	—	—	—	—	—	—	—
Cash flow hedges	(9)	(9)	—	54	(77)	6	—	—	(26)	(26)	—
Translation Differences	(1)	(1)	—	1	—	—	—	—	—	—	—
Companies Accounted for using the Equity Method	(43)	(43)	—	1	—	—	—	—	(42)	(42)	—
Other Income and Expenses Recognised Directly in Equity	—	—	—	—	—	—	—	—	—	—	—
Items that cannot be reclassified to profit or loss:	(657)	(657)	—	(33)	—	4	—	—	(686)	(686)	—
From Actuarial Gains and Losses and other Adjustments	17.1 (657)	(657)	—	(33)	—	4	—	—	(686)	(686)	—
Total	(710)	(710)	—	23	(77)	10	—	—	(754)	(754)	—

Millions of euros

Notes	31 December 2016			Changes in 2017					31 December 2017		
	Total	Of the Parent	Of the non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax Effect	Changes in the consolidation scope	Other Transactions with Shareholders or Owners	Total	Of the Parent	Of the non-controlling interests
Items that can be Reclassified to Profit or Loss:	(39)	(39)	—	86	(106)	6	—	—	(53)	(53)	—
From Measurement of Financial Instruments	—	—	—	—	—	—	—	—	—	—	—
Financial Assets at fair value	—	—	—	—	—	—	—	—	—	—	—
Other income/(Expenses)	—	—	—	—	—	—	—	—	—	—	—
Cash flow hedges	7	7	—	86	(108)	6	—	—	(9)	(9)	—
Translation Differences	—	—	—	(1)	—	—	—	—	(1)	(1)	—
Companies Accounted for using the Equity Method	(46)	(46)	—	1	2	—	—	—	(43)	(43)	—
Other Income and Expenses Recognised Directly in Equity	—	—	—	—	—	—	—	—	—	—	—
Items that cannot be reclassified to profit or loss:	(757)	(757)	—	127	—	(27)	—	—	(657)	(657)	—
From Actuarial Gains and Losses and other Adjustments	17.1	(757)	(757)	—	127	—	(27)	—	—	(657)	(657)
Total	(796)	(796)	—	213	(106)	(21)	—	—	(710)	(710)	—

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 2018 and 2017 are as follows:

Millions of Euros

Notes	Leverage ratio ¹	
	31 December 2018	31 December 2017
Net Financial Debt:	5,770	4,985
Non-current Interest-Bearing Loans and Borrowings	4,975	4,414
Current Interest-Bearing Loans and Borrowings	1,046	978
Cash and Cash Equivalents	(244)	(399)
Derivatives recognised as Financial Assets	(7)	(8)
Equity:	15	9,233
Of the Parent	9,037	9,096
Of Non-Controlling Interests	144	137
Leverage (%)	62.85	53.99

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 ex-

pectations 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.

The following dividends were approved and distributed in 2018 and 2017 without negatively affecting the ratio of the Net Financial Debt of the Net Equity of the Company (see Note 15.1.9):

Million Euros

	Dividends Approved and Paid			
	Approval date	Euros per share, gross	Amount	Payment date
Interim dividend	21 November 2017	0.70	741 ¹	2 January 2018
Final dividend	23 April 2018	0.682	722	2 July 2018
Total dividend paid against 2017 profit		1.382	1,463²	
Interim dividend	22 November 2016	0.70	741 ¹	2 January 2017
Final dividend	26 April 2017	0.633	670	3 July 2017
Total dividend paid against 2016 profit		1.333	1,411²	

¹ See Note 23.

² See Note 33.3.

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 2018 and 2017, reflecting investment grade levels, are as follows:

	Credit rating					
	31 December 2018 ¹			31 December 2017 ¹		
	Non-current	Current	Outlook	Non-current	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	A-	F2	Stable	BBB+	F2	Stable

¹ At the respective dates of preparing the Consolidated Financial Statements.

The Parent Company's directors consider that the rating 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 2018, 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 2018, financial debt subject to these restrictions totals Euros 103 million (Euros 159 million at 31 December 2017) (see Notes 6.1, 18.2.3 and 36.1).

15.2. Equity: Of the non-controlling interests

At 31 December 2018 and 2017, the composition and movements of this item of the consolidated statement of financial position are as follows:

Millions of Euros							
	Balance at 31 December 2017	Business combinations (Note 5.4)	Dividends paid	Profit for the period	Investments or Extensions ¹	Disposals or reductions ²	Balance at 31 December 2018
Aguilón 20, S.A.	24	—	(2)	1	—	—	23
Empresa de Alumbrado Eléctrico de Ceuta, S.A.	—	2	—	—	—	—	2
Eólica Valle del Ebro, S.A.	5	—	—	—	—	(1)	4
Explotaciones Eólicas Saso Plano, S.A.	9	—	—	1	—	—	10
Parque Eólico Sierra del Madero, S.A.	18	—	—	1	—	—	19
Sociedad Eólica de Andalucía, S.A.	27	—	(3)	2	—	—	26
Other	54	—	(4)	4	6	—	60
Total	137	2	(9)	9	6	(1)	144

¹ Correspond to the contributions of funds from partners of Tauste Energía Distribuida, S.L. (Euros 3 million) and Bosa del Ebro, S.L. (Euros 3 million) (see Notes 2.3.1 and 33.3).

² Corresponds to the reduction of capital of Eólica Valle del Ebro, S.A. (Euros 1 million) (see Note 33.3).



Millions of Euros

	Balance at 31 December 2016	Business combinations	Dividends paid	Profit for the period	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 Corresponding to the deconsolidation of Nueva Marina Real Estate, S.L. for the amount of Euros 2 million, positive, and the acquisition of a 100% stake in Productor Regional de Energía Renovable, S.A.U. and Productor Regional de Energía Renovable III, S.A.U. for Euros 8 million, negative (see Note 2.3.1).

At 31 December 2018 and 2017, the balance of the “Equity of non-controlling interests” section mainly included the non-controlling interests of the investments held by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 137 million and Euros 132 million, respectively.

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 2018 and 2017, 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.		Empresa de Alumbrado Eléctrico de Ceuta, 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 2018	31 December 2017	31 December 2018	31 December 2017(1)	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Non-current assets	96	100	83	—	10	10	32	33	69	71	137	149
Current assets	15	14	10	—	2	3	5	5	19	12	16	20
Total assets	111	114	93	—	12	13	37	38	88	83	153	169
Equity	48	49	66	—	9	11	26	24	45	43	70	73
Non-current liabilities	57	59	20	—	2	2	5	7	10	7	82	87
Current Liabilities	6	6	7	—	1	—	6	7	33	33	1	9
Total equity and liabilities	111	114	93	—	12	13	37	38	88	83	153	169

¹ It was not part of the consolidation perimeter (see Note 5.4).

Millions of Euros

	Income Statement											
	Aguilón 20, S.A.		Empresa de Alumbrado Eléctrico de Ceuta, 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.	
	2018	2017	2018	2017 ¹	2018	2017	2018	2017	2018	2017	2018	2017
Revenue	13	14	17	—	3	3	5	6	12	11	21	23
Profit/(loss) before tax	4	4	1	—	1	1	2	2	3	2	8	9
Profit/(loss) from continuing operations	3	3	1	—	—	1	2	2	2	2	6	7
Profit/(loss) after tax from discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—
Total Comprehensive Income	3	3	1	—	—	1	2	2	2	2	6	7

¹ It was not part of the consolidation perimeter (see Note 5.4).

Millions of Euros

	Statement of Cash Flows											
	Aguilón 20, S.A.		Empresa de Alumbrado Eléctrico de Ceuta, 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.	
	2018	2017	2018	2017 ¹	2018	2017	2018	2017	2018	2017	2018	2017
Net cash flow from operating activities	7	9	3	—	—	2	2	5	6	4	9	16
Net cash flows from investing activities	1	—	1	—	1	—	1	(1)	—	(2)	1	(1)
Net cash flows from financing activities	(8)	(5)	—	—	—	(1)	(3)	(2)	—	—	(15)	(11)

¹ It was not part of the consolidation perimeter (see Note 5.4).

The patrimonial data correspond to the information of the individual companies, with the exception of those relating to Empresa de Alumbrado Eléctrico de Ceuta, S.A. that correspond to its Consolidated Financial Statements.





16. Deferred income

At 31 December 2018 and 2017, 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	Non-current Liability Contracts with Customers	Total
Balance at 31 December 2016		334	4,378	4,712
Additions		6	187	193
Changes in consolidated group	5.6	—	1	1
Amount taken to income	25.2	(22)	(153)	(175)
Transfers and other		(3)	2	(1)
Balance at 31 December 2017		315	4,415	4,730
Transfer to Current Liabilities of Contracts with Customers	23	—	(157)	(157)
Additions		—	160	160
Changes in consolidated group	5.4	—	15	15
Amount taken to income	25.2	(18)	—	(18)
Transfers to current and other		(10)	(133)	(143)
Balance at 31 December 2018		287	4,300	4,587

Capital grants, specifically grants received under the partnership agreements entered into to improve the quality of supply in the electricity distribution network with, inter alia, the Ministry for Ecological Transition and regional governments.

The “Non-Current Liabilities of Contracts with Clients” section mainly includes the following concepts:

→ Facilities transferred from customers corresponds to the valuation of distribution facilities ceded by custom-

ers 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.

→ The Rights for Extension Service 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 1982, since 2001 by Royal Decree 1955/2000, of 1 September 2000, and since 2013, by Royal Decree 1048/2013, of 27 December 2013.

→ The advance payments for the obligations derived from the Indefeasible Right of Use (IRU) contracts related to the use of optical fibre by ENDESA Ingeniería, S.L.U. that are charged to the Consolidated Income Statement based on the life of the contract with the operators.

17. Non-current provisions

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Provisions for pensions and similar obligations	17.1	989	951
Provisions for workforce restructuring plans		614	773
Workforce reduction plans	172.1	78	120
Contract suspensions	172.2	536	653
Other Non-current Provisions	17.3	1,722	1,658
Total		3,325	3,382

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.

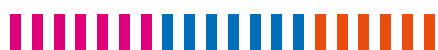
There are also certain social benefit obligations to employees during their retirement, that have not been externalised and are covered by the related internal provisions.

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:

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.





- 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 2018 and 2017 is as follows:

	31 December 2018	
	Pensions	Other defined benefits commitments
Interest Rate	1.75%	1.72%-1.75%
Mortality Tables	PERM/F2000	PERM/F2000
Expected return on plan assets	1.75%	N/A
Salary increase ¹	2.00%	2.00%
Increase in the cost of health care	N/A	3.20%

¹ Benchmark percentage for estimating salary increases.

	31 December 2017	
	Pensions	Other defined benefits commitments
Interest Rate	1.65%	1.63%-1.67%
Mortality Tables	PERM/F2000	PERM/F2000
Expected return on plan assets	1.65%	N/A
Salary increase ¹	2.00%	2.00%
Increase in the cost of health care	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 2018 and 2017, 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 2018	31 December 2017
Actuarial liability	1,593	1,632
Plan assets	(604)	(681)
Shortfall recognised in respect of actuarial liability	989	951

A breakdown of net actuarial liabilities, gross and the changes in the market value of assets relating to defined benefit obligations at 31 December 2018 and 2017 is as follows:

Millions of Euros

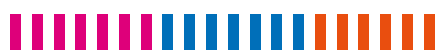
	Notes	31 December 2018			31 December 2017		
		Pensions	Other defined benefits commitments	Total	Pensions	Other defined benefits commitments	Total
Opening net actuarial liability		225	726	951	236	827	1,063
Net interest	30	3	12	15	3	15	18
Service costs in the period	27	7	4	11	9	5	14
Benefits paid in the period		—	—	—	—	—	—
Contributions in the period		(19)	(30)	(49)	(15)	(21)	(36)
Other movements		25	2	27	10	3	13
Actuarial (gains) losses arising from changes in demographic assumptions		—	—	—	—	—	—
Actuarial (gains) losses arising from changes in financial assumptions		(13)	(9)	(22)	22	31	53
Actuarial (gains) losses arising from experience adjustments		(24)	49	25	(30)	(137)	(167)
Actuarial return on plan assets excluding interest expense		30	—	30	(13)	—	(13)
Changes in consolidated group	5.4 and 5.5	—	1	1	3	3	6
Closing net actuarial liability		234	755	989	225	726	951

Millions of Euros

	Notes	31 December 2018			31 December 2017		
		Pensions	Other defined benefits commitments	Total	Pensions	Other defined benefits commitments	Total
Opening actuarial liability		906	726	1,632	945	827	1,772
Finance expenses		15	12	27	16	15	31
Service costs in the period		7	4	11	9	5	14
Benefits paid in the period		(78)	(30)	(108)	(69)	(21)	(90)
Other movements		25	2	27	10	3	13
Actuarial (gains) losses arising from changes in demographic assumptions		—	—	—	—	—	—
Actuarial (gains) losses arising from changes in financial assumptions		(13)	(9)	(22)	22	31	53
Actuarial (gains) losses arising from experience adjustments		(24)	49	25	(30)	(137)	(167)
Changes in consolidated group	5.4 and 5.5	—	1	1	3	3	6
Closing actuarial liability		838	755	1,593	906	726	1,632

Millions of Euros

	31 December 2018			31 December 2017		
	Pensions	Other defined benefits commitments	Total	Pensions	Other defined benefits commitments	Total
Initial market value of the affected assets	681	—	681	709	—	709
Expected return	12	—	12	13	—	13
Contributions in the period	19	30	49	15	21	36
Benefits paid in the period	(78)	(30)	(108)	(69)	(21)	(90)
Actuarial (losses) gains	(30)	—	(30)	13	—	13
Final market value of the affected assets	604	—	604	681	—	681





Plan assets

The main categories of defined benefit plan assets as a percentage of total assets, at 31 December 2018 and 2017, is as follows:

	Percentage (%)	
	31 December 2018	31 December 2017
Fixed-income assets ¹	55	60
Shares ¹	32	33
Investment property and other	13	7
Total	100	100

¹ Include shares and bonds of ENEL Group companies for an amount of 19 million euros at 31 December 2018 (20 million euros at 31 December 2017).

The breakdown of the fair value of fixed income securities by geographical area 31 December 2018 and 2017 is as follows:

Millions of Euros		
Country	31 December 2018	31 December 2017
Spain	112	143
Italy	43	48
US	29	30
France	24	40
Luxembourg	22	15
Germany	21	29
UK	19	24
Netherlands	8	13
Belgium	1	1
Other	53	66
Total	332	409

At 31 December 2018 and 2017, the value of defined benefit plan assets placed in sovereign debt instruments is as follows:

Millions of Euros		
Country	31 December 2018	31 December 2017
Spain	79	99
Italy	27	25
France	4	4
Germany	2	—
Other	19	16
Total	131	144

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 2018 was 3.24%, negative (3.79% positive in 2017).

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 2018 the weighted average duration, calculated based on probable flows of the obligation, was 16.1 years (16.7 years at 31 December 2017), and the calendar for payments of defined benefit obligations is as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Year 1	48	41
Year 2	52	46
Year 3	55	50
Year 4	59	54
Year 5	62	57
Commencing year 5	1,869	1,825
Total	2,145	2,073

The classification of defined benefit plan assets measured at fair value by fair value hierarchy at 31 December 2018 and 2017 are as follows:

Millions of Euros								
	31 December 2018				31 December 2017			
	Fair value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Defined benefit plan assets	604	536	53	15	681	587	74	20

The valuation of assets classified as Level 3 is determined based on valuation reports prepared by the corresponding management company.

In 2018 and 2017, amounts recognised for defined-benefit and defined contribution pension obligations in the consolidated income statement, are as follows:

Millions of Euros			
	Notes	2018	2017
Plan assets		(44)	(32)
Current cost during the year ¹	27	(11)	(14)
Net finance costs	30	(15)	(18)
Other current cost during the year	27	(18)	—
Defined contribution		(55)	(50)
Current cost during the year ²	27	(55)	(50)
Total		(99)	(82)

¹ In 2018, it includes Euros 7 million of the current cost relating to employees who opted to take early retirement, which had been recognised previously under provisions for workforce restructuring and transferred during the year to pension obligations (Euros 9 million in 2017).

² In 2018 and 2017, Euros 34 million and Euros 32 million were also contributed, respectively, which had been previously included under provisions for workforce restructuring plans.

In 2018 and 2017, amounts recognised for defined-benefit pension obligations in the Consolidated statement of other comprehensive income are as follows:

Millions of Euros			
	Notes	2018	2017
Actuarial return on plan assets excluding interest expense		(30)	13
Actuarial gains and losses		(3)	114
Change in the limit to surplus due to adoption of IFRIC 14 and paragraph 57 (b) of IAS 19		—	—
Total	15.1.10	(33)	127

At 31 December 2018, based on the best estimate available, forecast contributions to defined benefit plans in 2019 amount to approximately Euros 20 million.





Sensitivity analysis

At 31 December 2018 and 2017, 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 2018		31 December 2017	
	Pensions	Other defined benefits commitments	Pensions	Other defined benefits commitments
50 b.p. decrease in the interest rate	68	64	75	61
50 b.p. increase in the interest rate	(60)	(57)	(67)	(54)
50 b.p. decrease in the Consumer Price Index (CPI) ¹	(10)	(57)	(13)	(62)
50 b.p. increase in the Consumer Price Index (CPI) ¹	11	64	13	62
1% increase in healthcare costs	N/A	2	N/A	1
1 year increase in the life expectancy of working and retired employees	22	28	24	26

¹ Benchmark percentage for estimating salary increases.

17.2. Provisions for workforce restructuring plans

Provisions for the various workforce restructuring plans included in the consolidated statement of financial position are the result of individual or collective agreements with 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 2018, there were mainly three types of plans in force:

→ Workforce reduction plans approved by the former companies before the corporate restructuring process in 1999. A total of 5 people were considered in the valuation (183 people at 31 December 2017).

→ 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. A total of 65 people were considered in the valuation of this scheme (129 people at 31 December 2017).

→ 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. A total of 835 people are considered in the valuation (858 people at 31 December 2017).

→ 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%. A total of 69 people are considered in the valuation, (70 people at 31 December 2017).

As of 31 December 2018, all personnel of ENDESA affected by the aforementioned workforce reduction plans

approved by the Administration are in a situation of early retirement.

Movement in provisions for workforce reductions plans in 2018 and 2017 is as follows:

Millions of Euros

	Notes	2018	2017
Opening balance		120	160
Amounts charged to the income statement		2	(8)
Personnel expenses	27	2	(4)
Financial income and expense	30	—	(4)
Transfers to current and other		(44)	(32)
Closing balance		78	120

At 31 December 2018, the Current provisions heading of the consolidated statement of financial position includes Euros 65 million of provisions for workforce reductions plans (Euros 73 million payable in 2017) (see Note 24).

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising under these workforce reductions plans at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Interest Rate	0.78 %	0.65 %
CPI	2.00 %	2.00 %
Mortality Tables	PERM/F 2000	PERM/F 2000

Sensitivity analysis

At 31 December 2018 and 2017, 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 2018		31 December 2017	
	50bp increase	50bp decrease	50bp increase	50bp decrease
Interest Rate	(4)	5	(6)	7
CPI ¹	2	(1)	2	(2)

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, finalised on 31 December 2018, 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 to offer the possibility to terminate the employment contract with the payment of a compensation.
- For employees over 50 years old, it contemplates the possibility of the company to offer the suspension of the employment contract for one year, in exchange for a regular income during the suspension period. This 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.

During the 2013-2018 period, successive agreements have been signed with the union representatives of the employees for which ENDESA has committed not to exercise, in certain cases, the power to request the return to the company in the subsequent annual renewals of the signed agreements of suspension of the employment contract. At 31 December 2018, there were 1,423 employees with a the contract suspended pursuant to these Agreements (1,421 employees at 31 December 2017).

Details at 31 December 2018 and 2017 of provisions for contracts suspensions are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Provisions for long-term workforce restructuring plans			
Contract suspensions		536	653
Provisions for short-term workforce restructuring plans			
Contract suspensions	24	123	113
Total		659	766

The provisions covered the total cost to be undertaken by the Company during the period for which, in accordance with the commitments undertaken up to 31 December 2018, the Company cannot prevent the employment contract from being suspended.

Movements in this non-current provision in 2018 and 2017 are as follows:

Millions of Euros			
	Notes	2018	2017
Opening balance		653	788
Amounts charged to the income statement		3	(4)
Personnel expenses	27	2	(4)
Financial income and expense	30	1	—
Transfers to current and other		(120)	(131)
Closing balance		536	653

Actuarial assumptions

The assumptions used in the actuarial calculation of the obligations arising from the contracts suspension agreement at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Interest Rate	0.78%	0.65%
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 2018 and 2017, the sensitivity of the value of the actuarial liability for contracts suspensions to fluctuations in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Millions of Euros				
Assumption	31 December 2018		31 December 2017	
	50bp increase	50bp decrease	50bp increase	50bp decrease
Interest Rate	(14)	15	(17)	19
Guarantee and remaining items	13	(12)	16	(16)





17.3. Other provisions

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are 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 2017		701	957	1,658
Operating expenses		(62)	(6)	(68)
Charges		39	1	40
Reversals		(101)	(7)	(108)
Financial income and expense	30	4	10	14
Net provisions charged to property, plant and equipment	6	—	159	159
Payments		(29)	(8)	(37)
Transfers and other		(3)	(2)	(5)
Changes in consolidated group	5.2	—	1	1
Balance at 31 December 2018		611	1,111	1,722

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		728	975	1,703
Operating expenses		4	—	4
Charges		94	13	107
Reversals		(90)	(13)	(103)
Financial income and expense	30	8	9	17
Net provisions charged to property, plant and equipment	6	—	(8)	(8)
Payments		(41)	(13)	(54)
Transfers and other		—	—	—
Changes in consolidation scope ¹	5.5 and 2.3.1	2	(6)	(4)
Balance at 31 December 2017		701	957	1,658

¹ Corresponds to the acquisition of the ICT activity (Euros 2 million) (see Note 5.5) and the deconsolidation of Nueva Marina Real Estate, S.L. (Euros 6 million) (see Note 2.3.1).

At 31 December 2018 and 2017, the detail of provisions for decommissioning costs by type of plant is as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Nuclear power plants		552	538
Other plants		442	298
Dismantling of meters		97	94
Decommissioning of mines		20	27
Total	3a and 6	1,111	957

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:

- 2 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 33 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 Media (currently Ministry for the Ecological Transition and Ministry of Agriculture, Fisheries and Food) 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 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 Environment (currently Ministry for the Ecological Transition and Ministry of Agriculture, Fishing and Food) of 14 December 2017, that are currently being substantiated using the appropriate channels.

- On 11 May 2009, the Ministry for Energy, Tourism and Digital Agenda (currently Ministry for the Ecological Transition) issued an Ministerial 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 1964. 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. 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 was 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 against 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 2018. 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. By Order of 25 May 2018, of the Court of Gandesa, the Preliminary Investigation in Summary Proceedings are transformed for transfer to the Prosecutor and accusations of the scope of the accusation and they request oral judgement (or dismissal) in 5 days, or exceptionally additional proceedings. It alludes to the complexity of the enormous evidence practiced and contradiction of the opinions, which could only be resolved in the oral proceedings. On 7 June 2018, Asociación Nuclear

Ascó-Vandellós II, A.I.E. lodged an appeal before the Provincial Court of Tarragona. On 19 November 2018, a plea was filed requesting the dismissal of the appeal for reform filed by the Public Prosecutor in which the latter requested the annulment of the transfer of the appeal, in what appears to be an attempt to obtain an “extra” period” to formulate the challenge.

- On 22 February 2012, the National Commission of Markets and Competition (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 Distribución Eléctrica, S.L.U. appealed the sanction before the National Court, which suspended the payment of the fine. The National Court dismissed the administrative appeal filed against the fine imposed on ENDESA Distribución Eléctrica, S.L.U. amounting to Euros 23 million. In turn, a cassation appeal was filed before the Supreme Court against said Judgment. On 14 July 2017, the Supreme Court issued a judgment partially upholding the appeal filed in relation to the reason given regarding the lack of proportionality of the fine. The Supreme Court agrees, therefore, to annul the sanctioning resolution as far as the amount of the fine is concerned and orders the National Commission of Markets and Competition (CNMC) to recalculate said amount.
- 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 National Court provisionally suspended the ex-

ecution of the fine. Subsequently, on 7 May 2018, the National Court issued a judgement in which it partially upheld the appeal filed by ENDESA Distribución Eléctrica, S.L.U. and it cancelled the sanctioning resolution, considering that the fine had been calculated according to criteria that were not in accordance with the law and against the principle of proportionality. The case is pending execution.

→ 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, Guadalén, Bembezar, Iznájar, 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. Settlements in the amount of Euros 3 million in 2014 and Euros 2 million in 2015 were subsequently notified. Previously, in December 2014 and January 2015, ENDESA Generación, S.A.U. received settlements for levies for output of these plants for Euros 3 million for 2011 and 2012, and Euros 2 million for 2013 and subsequently for Euros 1 million for 2014, and another Euros 1 million for 2015. ENDESA Generación, S.A.U. has contested all those settlements before the Regional Appeal Court of Andalusia, and an appeal for judicial review is currently being processed. Notwithstanding the foregoing, all such settlements have been paid.

→ 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 finals) in addition to the permits for the farm’s feed-in infrastructures (Ruling of the Regional Appeal Court of Castilla y León of 13 and 19 March, which were contested by its owner, Promociones Energéticas del Bierzo, S.L. (100% owned by ENEL Green Power España, S.L.U. (EGPE)), with the

Supreme Court having rejected 2 of the 3 appeals filed by the ruling of 20 December 2018) and the approval of the Ponjos electrical substation transformation project (Ruling of the Administrative Court 1 of León of 31 May 2017, contested by Promociones Energéticas del Bierzo, S.L.U. with the appeal being rejected and pending an appeal for judicial review). 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 commissioned on 3 January 2018 (14 machines), and the remaining 11 machines on 4 April 2018, after receiving the permit for the occupation of public forest, in line with new administrative requirements. In the ruling on the enforcement, the Regional Appeal Court of Castilla y León has annulled the new administrative authorisation granted by Order of 30 July 2018, on the understanding that it was issued with the purpose of avoiding the ruling of the Regional Appeal Court of 13 July 2015. An appeal for reconsideration was filed against said Order by the Regional Government of Castilla y León and Energías Especiales del Alto Ulla, S.A.U., which was dismissed by Order of 21 December 2018, which is expected to be challenged by filing an appeal for judicial review before the Supreme Court.

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. Similar steps will be taken regarding the feed-in infrastructures and the Ponjos electrical substation transformation.

→ 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. On 25 April 2018, a judgement was handed down by the Court of First Instance of Almería, partially upholding the claim filed by the Andalusian Regional Government



and sentencing ENDESA Distribución Eléctrica, S.L.U. to pay Euros 8 million plus legal interest from 4 November 2015, which is when the claim was filed. This ruling has been appealed by ENDESA Distribución Eléctrica, S.L.U. however, the principal claimed was recorded in the Court.

- The Supreme Court issued several rulings on appeals submitted by ENDESA, S.A. against the obligation to finance the social bonus established in outdated Article 45.4 of Act 24/2013 of 26 December 2013, on the Electricity Sector (declared void due to incompatibility with Directive 2009/72/EC of the European Parliament and Commission, dated 13 July 2009, as set forth in Supreme Court rulings of 24 and 25 October 2016 and 2 November 2016). The Supreme Court recognised the right of ENDESA, S.A. to be compensated for the amounts paid as social bonuses, as per the article declared void, ruling that all the amounts paid for this concept plus corresponding legal interest should be reimbursed. The authorities submitted applications for nullification of these rulings, but these were dismissed by the Supreme Court. The authorities submitted two appeals before the Constitutional Court against said dismissal, which are pending a resolution. ENDESA, S.A. submitted arguments before the Constitutional Court, requesting the following: (I) Inadmissibility of the final appeal because the authorities are not the grantors of fundamental rights (effective legal protection); (II) Inadmissibility of the final appeal because the authorities do not hold a legitimate interest in the nullification of Supreme Court rulings; (III) Moreover, the rulings by the Supreme Court have not violated the authorities' right to effective legal protection ensuring proper defence and to all the guarantees of the process (see Notes 4 and 26.3).
- In relation to the Extremadura eco-tax, an appeal has been lodged against the settlement claimed for 2006-2018 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, notification of a favourable sentence for 2008 was received from the High Court of Extremadura, which is now final. 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 raised a new issue of unconstitutionality in relation to the 2012 Iberdrola, S.A. Ecotax, which was resolved in the ruling of 5 November 2018. The ruling rejects the unconstitutionality issue on the understanding that there is no incompatibility between the Ecotax and the Tax on Economic Activities.

- In 2015, the Tax Agency began to inspect ENEL Green Power España, S.L.U. (EGPE) in relation to (i) Corporate Income Tax (Individual and Tax Group), 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 the 2011 income tax expense. This inspection was completed in 2017 with the signing of notices of disagreement with the income tax expense of both EGPE (2010 to 2013, and third payment fractioned in 2015), and of ENEL Unión Fenosa Renovables, S.A. (2011). Likewise, infringement proceedings were reported in relation to the regularisation of the aforementioned fractioned payment. These agreements and infringement proceedings were appealed to the Central Economic and Administrative Court between 2017 and the beginning of 2018, and are pending resolution.
- In 2016, the Tax Agency notified ENDESA of the agreement to initiate the proceedings regarding the consolidated tax group to which ENDESA, S.A. belongs and its subsidiaries with respect to income tax expense for

2011 to 2014. In April 2018, notices of disagreement of the consolidated income tax expense group for 2011 to 2014 were signed for Euros 44 million (Euros 38 million tax and Euros 6 million interest) and Acts of Dissatisfaction of the Group of Entities for the purposes of the Value Added Tax (VAT) amounting to Euros 15 million (Euros 13 million of quota and Euros 2 million of interest). On 9 July 2018, the final settlement agreements were issued, which were appealed on 27 July 2018 before the Central Economic and Administrative Court. The concepts under discussion with probability of possible loss amount, in the case of Value Added Tax (VAT), to Euros 11 million (Euros 9 million of quota and Euros 2 million of interest) and has its origin in the difference of criterion on the calculation of the prorata, and in the case of the Income Tax to Euros 27 million (Euros 24 million for the tax rate and Euros 3 million in interest)

and are the result of differing criteria on the deductibility of plant decommissioning expenses and certain financial expenses during the audited period.

The Directors of the Parent 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 2018 and 2017 came to Euros 14 million and Euros 13 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 2018 and 2017 are as follows:

Millions of Euros

	Notes	31 December 2018				
		Nominal Value (Non-Current and Current)	Carrying Amount		Total	Fair Value
			Non-current	Current		
Bonds and other marketable securities		932	19	920	939	939
Bank borrowings		1,543	1,488	53	1,541	1,625
Other borrowings ¹		3,535	3,462	73	3,535	4,005
Total Interest-bearing Loans and Borrowings excluding Derivatives	19	6,010	4,969	1,046	6,015	6,569
Derivatives	19.3	71	6	—	6	6
Total		6,081	4,975	1,046	6,021	6,575

¹ Includes finance leases amounting to Euros 432 million (non-current) and Euros 22 million (current) (see Note 9.1).

Millions of Euros

	Notes	31 December 2017				
		Nominal Value (Non-Current and Current)	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	19	5,372	4,402	978	5,380	5,947
Derivatives	19.3	113	12	—	12	12
Total		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).

At 31 December 2018 and 2017, the detail of the Nominal Value of the interest-bearing loans and borrowings by maturity is as follows:

Millions of Euros											
	Maturity	Carrying amount at 31 December 2018	Fair Value	Nominal Value		Maturity					Nominal Value
				Current	Non-current	2020	2021	2022	2023	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	19	19	—	12	—	—	—	—	12	12
Floating rate	2019	920	920	920	—	—	—	—	—	—	920
Total		939	939	920	12	—	—	—	—	12	932
Bank borrowings											
Floating rate	2030	1,541	1,625	53	1,490	130	226	147	147	840	1,543
Total		1,541	1,625	53	1,490	130	226	147	147	840	1,543
Other Borrowings											
Fixed rate	2036	3,473	3,941	33	3,440	24	25	25	25	3,341	3,473
Floating rate	2023	62	64	40	22	9	13	—	—	—	73
Total		3,535	4,005	73	3,462	33	38	25	25	3,341	3,535
Total		6,015	6,569	1,046	4,964	163	264	172	172	4,193	6,010

Millions of Euros											
	Maturity	Carrying amount at 31 December 2017	Fair Value	Nominal Value		Maturity					Nominal Value
				Current	Non-current	2019	2020	2021	2022	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	19	19	—	12	—	—	—	—	12	12
Floating rate	2019	905	905	889	15	15	—	—	—	—	904
Total		924	924	889	27	15	—	—	—	12	916
Bank borrowings											
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	4,394	103	107	131	121	3,932	5,372





At 31 December 2018 and 2017, the breakdown of gross finance debt before derivatives, by currencies, and the impact of currency hedges, is as follows:

Millions of Euros

31 December 2018								
	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	6,015	6,010	100.00%	—	6,015	100.00%	1.90%	1.90%
Other	—	—	—	—	—	—	—	—
Total	6,015	6,010	100.00%	—	6,015	100.00%	1.90%	1.90%

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	—	—	—	—	—	—	—	—
Total	5,380	5,372	100.00%	—	5,380	100.00%	2.10%	2.10%

The movement in the nominal amount of non-current interest-bearing loans and borrowings excluding derivatives in 2018 and 2017 is as follows:

Millions of Euros

	Nominal amount at 31 December 2017	Creates cash flow		Does not create cash flow		Nominal Value at 31 December 2018
		Repayments and Redemptions (Note 33.3)	New Borrowings (Note 33.3)	Changes in scope of consolidation (Note 5.2)	transfers	
Bonds and other marketable securities	27	—	—	—	(15)	12
Bank borrowings	892	(55)	706	104	(157)	1,490
Other Borrowings	3,475	(1)	15	—	(27)	3,462
Total	4,394	(56)	721	104	(199)	4,964

Millions of Euros

	Nominal Value at 31 December 2016	Creates cash flow		Does not create cash flow		Nominal Value at 31 December 2017
		Repayments and Redemptions (Note 33.3)	New Borrowings (Note 33.3)	Changes in the scope of consolidation	transfers	
Bonds and other marketable securities	47	(20)	—	—	—	27
Bank borrowings	649	(46)	306	—	(17)	892
Other Borrowings	3,499	(8)	9	(2)	(23)	3,475
Total	4,195	(74)	315	(2)	(40)	4,394

The movement in the nominal amount of current interest-bearing loans and borrowings excluding derivatives in 2018 and 2017 is as follows:

Millions of Euros						
	Nominal Value at 31 December 2017	Creates cash flow		Does not create cash flow		Nominal Value at 31 December 2018
		Repayments and Redemptions (Note 33.3)	New Borrowings (Note 33.3)	Changes in scope of consolidation (Note 5.2)	Transfers	
Bonds and other marketable securities	889	(7,406)	7,422	—	15	920
Bank borrowings	18	(138)	2	12	159	53
Other Borrowings	71	(6,673)	6,647	—	28	73
Total	978	(14,217)	14,071	12	202	1,046

Millions of Euros						
	Nominal Value at 31 December 2016	Creates cash flow		Does not create cash flow		Nominal Value at 31 December 2017
		Repayments and Redemptions (Note 33.3)	New Borrowings (Note 33.3)	Changes in the scope of consolidation	Transfers	
Bonds and other marketable securities	968	(5,640)	5,561	—	—	889
Bank borrowings	68	(79)	11	—	18	18
Other Borrowings	108	(2,250)	2,232	(19)	—	71
Total	1,144	(7,969)	7,804	(19)	18	978

The average interest on gross interest-bearing loans and borrowings in 2018 was 1.9% (2.1% in 2017) (see Note 3a.1).

These undrawn credit lines secure the refinancing of current debt presented in non-current interest-bearing loans and borrowings in the accompanying consolidated statement of financial position (see Note 3m), which amounted to Euros 11 million at 31 December 2018 (Euros 17 million at 31 December 2017).

18.2. Other matters

18.2.1. Liquidity

As of 31 December 2018, ENDESA's liquidity rose to Euro 3,040 million (Euro 3,495 million at 31 December 2017) as detailed below:

Millions of Euros			
	Notes	Liquidity	
		31 December 2018	31 December 2017
Cash and Cash Equivalents	14	244	399
Unconditional available on credit lines ¹	20.4	2,796	3,096
Total		3,040	3,495

¹ At 31 December 2018 and 2017, available committed and irrevocable credit facilities with ENEL Finance International, N.V..

The amount of these credit facilities, together with the current assets, provides sufficient coverage of ENDESA's short-term payment obligations (see Note 20.4).

18.2.2. Main financial transactions

The main transactions in 2018 were as follows:

- Within the framework of the ENDESA Grid Modernisation financial transactions signed with the European Investment Bank (EIB) in 2017, on 29 May 2018, a draw-down of Euros 500 million euros was made at a variable rate with a 12 year maturity, repayable from 2022 (see Note 33.3).





- The credit lines arranged with various financial institutions maturing in March 2020 (Euros 160 million) and March 2021 (Euros 1,825 million) were extended.
- The Project Finance bank financing held by some subsidiaries of ENEL Green Power España, S.L.U. (EGPE) for a total of Euros 160 million (see Note 33.3) was settled. This financing was extended prior to the acquisition of these companies and has been refinanced with corporate resources under more competitive conditions.
- On 21 December 2018, ENDESA, S.A. a financing was subscribed, yet to be paid at the date of preparation of these consolidated financial statements, with the European Investment Bank for the amount of Euros 335 million, maturing in 15 years and offering a three-year grace period.
- During 2018, the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., was maintained, and the outstanding balance at 31 December 2018 was Euros 905 million, renewable with the backing of irrevocable lines of bank credit.
- On 28 December 2018, the non-renewal of the uncommitted intercompany credit facility signed with ENEL Finance International N.V., for Euros 1,500 million, was confirmed.

18.2.3. Financial stipulations

Certain ENDESA companies' loans and borrowings contain the usual covenants in this type of agreement.

At 31 December 2018, ENDESA, S.A. and all its subsidiaries, with the exception of one, are complying with their financial obligations or any obligations that could require early repayment of their liabilities.

ENDESA's directors do not consider that these clauses change the current/non-current classification in the consolidated statement of financial position at 31 December 2018.

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 Passue*" 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 'live' bond issues by International ENDESA B.V. under its Global Medium Term Notes programmes (Euros 27 million live at 31 December 2018 and 2017, respectively) 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 2018 and 2017, ENDESA, S.A. had entered into financial transactions with the European Investment Bank (EIB), with amounts of Euros 1,100 million and Euros 600 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 2018, ENDESA, S.A. has loans and other borrowings from banks and ENEL Finance International, N.V. of approximately Euros 4,560 million, with an outstanding debt of Euros 4,225 million, which might have to be repaid early in the event of a change of control over ENDESA, S.A. (Euros 5,738 million at 31 December 2017, with an outstanding debt of Euros 3,738 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 2018 is Euros 1,225 million (Euros 738 million at 31 December 2017).

Project financing

At 31 December 2018, certain ENDESA subsidiaries operating in the renewable energy business and financed through project finance have a financial debt of Euros 103

million (Euros 159 million at 31 December 2017) (see Notes 6.1, 15.1.12 and 36.1), which includes the following clauses:

- These debts and their associated derivatives with a negative net market value of Euros 6 million might have to be settled early as a result of a change of shareholding control (Euros 12 million at 31 December 2017).
- 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 the fulfilment of ratios

At 31 December 2018 and 2017, certain ENDESA subsidiaries that operate in the renewable generation business are obliged to comply with specific annual debt servicing coverage ratios (ADSCR). In reference thereto, with the exception of one of those companies in which the Directors are taking the steps necessary to refinance the short-term debt of Euros 1 million, the debt pending payment as at 31 December 2018 fulfils these ratios.





18.2.4. Other matters

At 31 December 2018 and 2017, the estimated interest on gross financial debt, considering the interest rates prevailing on those dates and until maturity, is as follows:

Millions of Euros

Instrument	Total	Interests Gross financial debt at 31 December 2018					
		2019	2020	2021	2022	2023	Subsequent
Bonds and other marketable securities	10	1	1	1	1	1	5
Bank borrowings	234	25	24	23	21	20	121
Other borrowings	559	94	93	92	93	92	95
Total	803	120	118	116	115	113	221

Millions of Euros

Instrument	Total	Interests 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

At 31 December 2018 and 2017, 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

At 31 December 2018 and 2017, the classification of financial instruments in the Consolidated Statement of Financial Position is as follows:

Millions of Euros					
	Notes	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Financial Asset Instruments					
Derivatives	19.3	90	229	39	160
Financial Assets	19.1	768	982	730	764
Trade Receivables	13	—	2,479	—	2,631
Cash and Cash Equivalents	14	—	244	—	399
Total	19.1	858	3,934	769	3,954
Financial Liability Instruments					
Derivatives	19.3	96	276	46	128
Financial debt	18.1	4,969	1,046	4,402	978
Other Liabilities		667	—	612	—
Trade payables and other current liabilities	23	—	5,146	—	5,283
Total	19.2	5,732	6,468	5,060	6,389

19.1. Classification of non-current and current financial assets

At 31 December 2018 and 2017, the classification of financial assets in the Consolidated Statement of Financial Position by category is as follows:





Millions of Euros

	Notes	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Financial assets measured at amortised cost	19.1.1	762	3,705	724	3,794
Financial Assets		762	982	724	764
Trade Receivables	13	—	2,479	—	2,631
Cash and Cash Equivalents	14	—	244	—	399
Financial assets at fair value with changes in the income statement		25	88	14	63
Equity instruments	19.1.2 and 19.6.1	6	—	6	—
Derivatives not designated as hedging instruments	19.3	19	88	8	63
Financial assets at fair value with changes in the consolidated statement of other comprehensive income		—	—	—	—
Hedging derivatives	19.3	71	141	31	97
Total		858	3,934	769	3,954

Movements in non-current financial assets, without derivatives, in 2018 and 2017 are as follows:

Millions of Euros

	Balance at 31 December 2017	Changes in Accounting Policies IFRS 9 (Note 2.1), 1	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity	Transfers and other	Changes in consolidated group	Balance at 31 December 2018
Loans and receivables	757	(31)	198	(29)	—	(124)	—	771
Equity instruments	7	—	—	—	—	1	—	8
Derivatives	8	(8)	—	—	—	—	—	—
Impairment losses	(3)	(10)	—	—	—	2	—	(11)
Total	769	(49)	198	(29)	—	(121)	—	768

¹ Correspond to hedge derivatives and non-designated hedge accounting derivatives amounting to Euros 31 million and Euros 8 million, respectively, which have been reclassified to the category Derivatives or Financial Assets at Fair Value with Changes in the Income Statement.

Millions of Euros

	Balance at 31 December 2016	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity ¹	Transfers and other	Changes in consolidated group (Note 5.5)	Balance at 31 December 2017
Loans and receivables	697	168	(35)	23	(97)	1	757
Equity instruments	31	—	(23)	—	(1)	—	7
Derivatives	9	—	—	—	(1)	—	8
Impairment losses	(25)	—	22	—	—	—	(3)
Total	712	168	(36)	23	(99)	1	769

¹ Recognised under Equity: Other comprehensive income or Equity: Of the non-controlling interests, as appropriate.

Details of non-current financial assets, without derivatives, by maturity at 31 December 2018 and 2017 are as follows:

Millions of Euros

	31 December 2018	31 December 2017
Between 1 and 3 years	181	169
Between 3 and 5 years	12	10
More than five years	575	551
Total	768	730

19.1.1. Financial assets measured at amortised cost

At 31 December 2018 and 2017, the details of the financial assets at amortised cost, by nature, is as follows:

Millions of Euros

	Notes	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Financial Assets		762	982	724	764
Financing of the revenue shortfall from regulated activities in Spain and other regulated remuneration	4	—	236	—	222
Compensation for extra-costs in non-mainland generation (TNP)	4	—	609	—	304
Guarantee deposits		437	—	424	—
Loans to employees		23	10	22	11
Loans to Associated Companies, Joint Ventures and Joint Operation Entities	35.2	63	4	66	5
Remuneration of the distribution activity	4	155	83	106	70
Remuneration to the investment in Renewable Energies	4	—	1	3	1
Other financial assets		93	50	105	151
Valuation Adjustments		(9)	(11)	(2)	—
Trade Receivables	13	—	2,479	—	2,631
Cash and Cash Equivalents	14	—	244	—	399
Total		762	3,705	724	3,794

The amortised cost of these financial assets does not differ substantially from their carrying amount.

Factoring transactions were carried out in 2018. The undue balances at 31 December 2018, amounted to Euros 73 million, which were derecognised from the consolidated statement of financial position. The cost of these transactions was less than Euros 1 million, recognised under “Gains/(Losses) on Disposal of Assets” in the Consolidated Income Statement (see Note 31).

Financing of the revenue shortfall from regulated activities in Spain

On 13 December, 2014, Royal Decree 1054/2014, of 12 December 2014, 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 2018, the amount of the collection right associated with the shortfall for temporary adjustments was Euros 236 million, recognised under the “Current Financial Assets” section on the consolidated statement of financial position (Euros 222 million at 31 December 2017).

In 2018 and 2017, 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.

Compensation for extra-costs of non-mainland generation (TNP)

At 31 December 2018 and 2017, in application of the regulation described in Note 4, the amounts recognised amount to Euros 609 million and Euros 304 million recognised in the “Current Financial Assets” section, respectively.

Guarantee deposits

At 31 December 2018 and 2017, 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 Associated Companies, Joint Ventures and Joint Operation Entities

Details by maturity of non-current and current loans to associates and joint operation entities and joint ventures at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Notes	Balance at 31 December 2018	Current maturity 2019	Non-current maturities					Total
				2020	2021	2022	2023	Subsequent	
Euros		67	4	3	1	1	3	55	63
Foreign currency		—	—	—	—	—	—	—	—
Total	35.2	67	4	3	1	1	3	55	63

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	35.2	71	5	2	3	1	1	59	66

These loans earned interest at an average annual rate of 3.40% in 2018 and 3.38% in 2017.

Remuneration of the distribution activity

At 31 December 2018, in application of the regulation described in Note 4, the amounts registered totalled Euros 155 million and Euros 83 million, recognised under Non-current Financial Assets and Current Financial Asset respectively (Euros 106 million and Euros 70 million at 31 December 2017).

Remuneration to the investment in Renewable Energies

At 31 December 2018, in application of the regulation described in Note 4, the amounts registered totalled Euros 28 million in the "Other Non-Current Liabilities" section and Euros 1 million in the "Current Financial Assets" section (Euros 3 million registered in the "Non-Current Financial Assets" section and Euros 1 million in the "Current Financial Assets" section, at 31 December 2017).

Valuation Adjustments

The movement in Valuation adjustments in 2018 and 2017 was as follows:

Millions of Euros			
	Notes	2018	2017
Opening balance		2	2
Adjustments due to Changes in Accounting Policies IFRS 9 Financial Instruments	2.1	20	—
Adjusted Balance at 1 January 2016		22	—
Charges	19.4.1, 29 and 34.2	1	—
Applications	30	(3)	—
Closing balance		20	2

19.1.2. Financial assets at fair value with changes in the income statement

At 31 December 2018 and 2017, this category includes equity instruments that correspond to interests in other companies amounting to Euros 6 million and Euros 6 million, respectively.

The individual amount of the rest of the investments recognised under this item is not significant.

19.1.3. Commitments of financial assets

At 31 December 2018, 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

At 31 December 2018 and 2017, the classification of financial liability in the Consolidated Statement of Financial Position by category is as follows:



Millions of Euros

	Notes	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Financial liabilities measured at amortised cost		5,617	6,176	4,979	6,261
Financial debt	18.1	4,950	1,030	4,367	978
Other Liabilities		667	—	612	—
Trade Payables and Other Current Liabilities	23	—	5,146	—	5,283
Financial liabilities at fair value with changes in the income statement		41	180	51	52
Financial Debt ¹	18.1 and 19.6.3	19	16	35	—
Derivatives not designated as hedging instruments	19.3	22	164	16	52
Hedging derivatives	19.3	74	112	30	76
Total		5,732	6,468	5,060	6,389

¹ Corresponds in its entirety to financial liabilities that, from the start of the transaction, are underlying fair value hedges and are measured at fair value through changes in the Consolidated Income Statement.

19.2.1. Financial liabilities measured at amortised cost

At 31 December 2018 and 2017, the details of the financial liabilities at amortised cost, by nature, is as follows:

Millions of Euros

	Notes	31 December 2018		31 December 2017	
		Non-current	Current	Non-current	Current
Bonds and other marketable securities	18.1	—	904	—	889
Bank borrowings	18.1	1,488	53	892	18
Other Borrowings	18.1	3,462	73	3,475	71
Trade Payables and Other Current Liabilities	23	—	5,146	—	5,283
Other Liabilities	21	667	—	612	—
Total		5,617	6,176	4,979	6,261

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 2018 and 2017 are as follows:

Millions of Euros

	31 December 2018			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Debt derivatives	6	1	6	—
Interest Rate Hedges	6	1	—	—
Fair value hedges	6	1	—	—
Derivatives not designated as hedging instruments	—	—	6	—
Physical Derivatives	84	227	90	276
Foreign Currency Hedges	14	48	2	7
Cash Flow Hedges	14	48	2	7
Price Hedges	51	91	72	105
Cash Flow Hedges	51	91	72	105
Derivatives not designated as hedging instruments	19	88	16	164
Other derivatives	—	1	—	—
Total	90	229	96	276

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

The breakdown of derivatives contracted, their fair values and maturities at 31 December 2018 and 2017 is as follows:





Millions of Euros

Derivatives	31 December 2018							
	Fair Value	Notional						Total
		2019	2020	2021	2022	2023	Subsequent	
FINANCIAL DERIVATIVES	1	15	37	—	34	—	12	98
Interest Rate Hedges	7	15	—	—	—	—	12	27
Fair value hedges	7	15	—	—	—	—	12	27
Swaps	7	15	—	—	—	—	12	27
Derivatives not designated as hedging instruments	(6)	—	37	—	34	—	—	71
Swaps	(6)	—	37	—	34	—	—	71
PHYSICAL DERIVATIVES	(54)	4,647	2,259	189	18	14	16	7,143
Exchange rate	50	1,319	860	52	2	—	—	2,233
Designated as hedges	54	1,253	830	52	2	—	—	2,137
Futures	54	1,253	830	52	2	—	—	2,137
Not designated as hedges	(4)	66	30	—	—	—	—	96
Futures	(4)	66	30	—	—	—	—	96
Price	(104)	3,328	1,399	137	16	14	16	4,910
Designated as hedges	(35)	1,594	1,132	108	—	—	—	2,834
Swaps	(34)	1,594	1,126	108	—	—	—	2,828
Other	(1)	—	6	—	—	—	—	6
Not designated as fuel hedges	(77)	1,214	133	—	—	—	—	1,347
Swaps	(78)	1,089	98	—	—	—	—	1,187
Other	1	125	35	—	—	—	—	160
Not designated as electricity hedges	8	520	134	29	16	14	16	729
Swaps	8	501	133	28	15	14	14	705
Other	—	19	1	1	1	—	2	24
Total	(53)	4,662	2,296	189	52	14	28	7,241

Millions of Euros

Derivatives	31 December 2017							
	Fair Value	Notional						Total
		2018	2019	2020	2021	2022	Subsequent	
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
Other	—	—	—	—	—	—	—	—
Not designated as fuel hedges	17	448	62	3	—	—	—	513
Swaps	14	374	62	3	—	—	—	439
Other	3	74	—	—	—	—	—	74
Not designated as electricity hedges	1	455	48	—	—	—	—	503
Swaps	1	441	48	—	—	—	—	489
Other	—	14	—	—	—	—	—	14
Total	25	3,145	1,261	226	1	36	12	4,681

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				
	2018		2017	
	Income	Expenses	Income	Expenses
Hedged items	1	—	3	—
Derivatives ¹	—	1	—	2
Total	1	1	3	2

¹ Without settlement.

The consolidated income statement did not reflect any amounts in respect of the ineffective portion of cash flow hedges in 2018 and 2017.

There was no discontinuation of hedge accounting of derivatives initially designated as cash flows in 2018 and 2017.

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 2018 and 2017 are as follows:

Millions of Euros					
	2018				
	Financial assets measured at amortised cost	Financial assets at fair value with changes in the income statement	Financial assets at fair value with changes in the consolidated statement of other comprehensive income	Hedging derivatives	Total
Gains/(losses) in the consolidated income statement	(80) ¹	47	—	78	45
Gains / (losses) recognised in the consolidated statement of other comprehensive income	—	—	—	(23)	(23)
Total	(80)	47	—	55	22

¹ Corresponds to net impairment losses on accounts receivable (see Notes 13.1, 19.1.1, 29 y 34.2).

Millions of Euros					
	2017				
	Financial assets measured at amortised cost	Financial assets at fair value with changes in the income statement	Financial assets at fair value with changes in the consolidated statement of other comprehensive income	Hedging derivatives	Total
Gains/(losses) in the consolidated income statement	(182) ¹	(83)	—	109	(156)
Gains / (losses) recognised in the consolidated statement of other comprehensive income	—	—	—	(51)	(51)
Total	(182)	(83)	—	58	(207)

¹ Corresponds to net impairment losses on accounts receivable (see Notes 13.1, 29 y 34.2).





19.4.2. Net gains and losses on financial liabilities by category

The net gains and losses on financial liabilities by categories at 31 December 2018 and 2017 are as follows:

Millions of Euros				
	2018			
	Financial liabilities measured at amortised cost	Financial liabilities at fair value with changes in the income statement	Hedging derivatives	Total
Gains/(losses) in the consolidated income statement	(129) ¹	(60)	(1)	(190)
Gains / (losses) recognised in the consolidated statement of other comprehensive income	—	—	—	—
Total	(129)	(60)	(1)	(190)

¹ Corresponds to financial expenses from debt (see Note 30).

Millions of Euros				
	2017			
	Financial liabilities measured at amortised cost	Financial liabilities at fair value with changes in the income statement	Derivatives of Hedging	Total
Gains/(losses) in the consolidated income statement	(133) (1)	39	(8)	(102)
Gains / (losses) recognised in the consolidated statement of other comprehensive income	—	—	—	—
Total	(133)	39	(8)	(102)

¹ Corresponds to financial expenses from debt (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 2018 and 2017 is as follows:

Millions of Euros

31 December 2018							
	Notes	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 guarantees	
Non-current financial assets	19.1	858	—	858	(68)	—	790
Derivatives	19.3	84	—	84	(68)	—	16
Total Non-current Assets		858	—	858	(68)	—	790
Trade and other receivables ¹	13	2,707	—	2,707	(275)	—	2,432
Trade Receivables		2,578	—	2,578	(110)	—	2,468
Non-financial Derivatives	19.3	228	—	228	(165)	—	63
Current financial assets	19.1	982	—	982	—	(1)	981
Other financial assets		50	—	50	—	(1)	49
Total Current Assets		3,689	—	3,689	(275)	(1)	3,413

¹ Does not include balances with Public Administrations.

Millions of Euros

31 December 2017							
	Notes	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 guarantees	
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		2,720	—	2,720	(141)	—	2,579
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 2018							
	Notes	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 guarantees	
Non-current Interest-Bearing Loans and Borrowings	18.1	4,975	—	4,975	—	—	4,975
Other Borrowings		3,462	—	3,462	—	—	3,462
Other Non-current Liabilities	21	757	—	757	(65)	—	692
Non-current derivatives	19.3	90	—	90	(65)	—	25
Total non-current liabilities		5,732	—	5,732	(65)	—	5,667
Trade payables and other current liabilities ¹	23	5,422	—	5,422	(270)	—	5,152
Suppliers and other Payables		3,644	—	3,644	(110)	—	3,534
Non-financial Derivatives	19.3	276	—	276	(160)	—	116
Current Interest-Bearing Loans and Borrowings	18.1	1,046	—	1,046	—	(9)	1,037
Total Current Liabilities		6,468	—	6,468	(270)	(9)	6,189

¹ Does not include balances with public administrations.

Millions of Euros

31 December 2017							
	Notes	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 guarantees	
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 payables and other current liabilities 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.

19.6. Fair value measurement

19.6.1. Fair value measurement of categories of financial assets

The classifications of non-current and current financial assets measured at fair value in the consolidated statement of financial position by fair value hierarchy level at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Notes	31 December 2018			
		Fair Value	Level 1	Level 2	Level 3
Equity instruments	19.1	6	—	—	6
Debt derivatives	19.3	6	—	6	—
Interest Rate Hedges		6	—	6	—
Fair value hedges		6	—	6	—
Physical Derivatives	19.3	84	10	74	—
Foreign Currency Hedges		14	—	14	—
Cash Flow Hedges		14	—	14	—
Price Hedges		51	1	50	—
Cash Flow Hedges		51	1	50	—
Derivatives not designated as hedging instruments	19.1	19	9	10	—
Total Non-current Assets		96	10	80	6
Debt Derivatives		1	—	1	—
Interest Rate Hedges		1	—	1	—
Fair value hedges		1	—	1	—
Physical Derivatives	13	227	30	197	—
Foreign Currency Hedges		48	—	48	—
Cash Flow Hedges		48	—	48	—
Price Hedges		91	12	79	—
Cash Flow Hedges		91	12	79	—
Derivatives not designated as hedging instruments	19.1	88	18	70	—
Other derivatives	13	1	—	1	—
Total Current Assets	19.3	229	30	199	—

Millions of Euros

	Notes	31 December 2017			
		Fair Value	Level 1	Level 2	Level 3
Debt derivatives		8	—	8	—
Interest Rate Hedges	19.3	8	—	8	—
Fair value hedges		8	—	8	—
Physical Derivatives	19.3	31	3	28	—
Foreign Currency Hedges		—	—	—	—
Cash Flow Hedges		—	—	—	—
Price Hedges		23	—	23	—
Cash Flow Hedges		23	—	23	—
Derivatives not designated as hedging instruments	19.1	8	3	5	—
Total Non-current Assets	19.3	39	3	36	—
Debt Derivatives		—	—	—	—
Interest Rate Hedges		—	—	—	—
Fair value hedges		—	—	—	—
Physical Derivatives	13	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	19.1	63	20	43	—
Other derivatives		—	—	—	—
Total Current Assets	19.3	160	21	139	—





There were no hierarchy level transfers among these financial assets in 2018 and 2017.

19.6.2. Fair value measurement of categories of assets not measured at fair value

The non-current and current assets 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									
	Notes	31 December 2018				31 December 2017			
		Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Investment property	3b and 7.1	69	—	—	69	16	—	—	16

19.6.3. Fair value measurement of categories of financial liabilities

The classifications of non-current and current financial liabilities measured at fair value in the consolidated statement of financial position by fair value hierarchy level at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Notes	31 December 2018			
		Fair Value	Level 1	Level 2	Level 3
Bonds and other marketable securities	19.2	19	—	19	—
Debt derivatives	18.1 and 19.3	6	—	6	—
Derivatives not designated as hedging instruments		6	—	6	—
Physical Derivatives	19.3	90	7	83	—
Foreign Currency Hedges		2	—	2	—
Cash Flow Hedges		2	—	2	—
Price Hedges		72	—	72	—
Cash Flow Hedges		72	—	72	—
Derivatives not designated as hedging instruments		16	7	9	—
Total non-current liabilities		115	7	108	—
Bonds and other marketable securities	19.2	16	—	16	—
Physical Derivatives	19.3 and 23	276	25	251	—
Foreign Currency Hedges		7	—	7	—
Cash Flow Hedges		7	—	7	—
Price Hedges		105	8	97	—
Cash Flow Hedges		105	8	97	—
Derivatives not designated as hedging instruments		164	17	147	—
Other hedges		—	—	—	—
Total Current Liabilities		292	25	267	—

Millions of Euros

	Notes	31 December 2017			
		Fair Value	Level 1	Level 2	Level 3
Bonds and other marketable securities	19.2	35	—	35	—
Debt derivatives	18.1 and 19.3	12	—	12	—
Derivatives not designated as hedging instruments		12	—	12	—
Physical Derivatives	19.3	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	—
Bonds and other marketable securities		—	—	—	—
Physical Derivatives	19.3 and 23	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	23	1	—	1	—
Total Current Liabilities		128	25	103	—

There were no hierarchy level transfers among these financial liabilities in 2018 and 2017.





19.6.4. Fair value measurement of categories of financial liabilities not measured at fair value

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 at 31 December 2018 and 2017 are as follows:

Millions of Euros				
	31 December 2018			
	Fair Value	Level 1	Level 2	Level 3
Bank borrowings	1,607	—	1,607	—
Fixed rate	—	—	—	—
Floating rate	1,607	—	1,607	—
Other financial liabilities	3,837	—	3,837	—
Fixed rate	3,815	—	3,815	—
Floating rate	22	—	22	—
Total non-current liabilities	5,444	—	5,444	—
Bank borrowings	18	—	18	—
Fixed rate	—	—	—	—
Floating rate	18	—	18	—
Bonds and other marketable securities	904	—	904	—
Fixed rate	—	—	—	—
Floating rate	904	—	904	—
Other financial liabilities	168	—	168	—
Fixed rate	126	—	126	—
Floating rate	42	—	42	—
Total Current Liabilities	1,090	—	1,090	—

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	—

20. Risk management and control policy

The activities of ENDESA 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 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 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 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.
 - > 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.
 - > 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 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.
- > 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 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.

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 2018 and 2017, the structure of financial risk, factoring in the derivatives arranged, is as follows:

Millions of Euros

	Net position			
	31 December 2018		31 December 2017	
	Before derivatives	After derivatives	Before derivatives	After derivatives
Fixed interest rate	3,544	3,550	3,599	3,611
Floating interest rate	2,227	2,220	1,382	1,374
Total	5,771	5,770	4,981	4,985

At 31 December 2018 and 2017, the reference interest rate for the borrowings arranged by ENDESA is mainly Euribor.

The breakdown of interest-rate derivatives at 31 December 2018 and 2017 by designation is as follows:

Millions of Euros

Interest rate derivatives	31 December 2018					
	Notional Net	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Fair value hedging derivatives						
Interest rate swaps	27	7	27	7	—	—
Interest rate options	—	—	—	—	—	—
Trading derivatives						
Interest rate swaps	71	(6)	—	—	71	(6)
Interest rate options	—	—	—	—	—	—
Total interest rate swaps	98	1	27	7	71	(6)
Total interest rate options	—	—	—	—	—	—
Total INTEREST RATE DERIVATIVES	98	1	27	7	71	(6)

Millions of Euros

Interest rate derivatives	31 December 2017					
	Notional Net	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)

The effect of hedging derivatives in the Consolidated Statement of Financial Position, in the Consolidated Income Statement and in the Consolidated Statement of Other Comprehensive Income was as follows:





Millions of Euros

	31 December 2018			2018		
	Net notional amount	Assets, fair value	Liabilities, fair value	Book Amount of the Hedged Item in the Statement of Financial Position	Changes in the Fair Value of the Hedged Item	Accumulated Amount of the Hedging Adjustments of the Fair Value in the Hedged Item
Fair value hedging derivatives						
Interest rate swaps	27	7 ¹	—	27	—	8
Interest rate options	—	—	—	—	—	—
Total fair value hedging derivatives	27	7	—	27	—	8

¹ Included in the "Non-current financial assets - Hedging Derivatives" in the accompanying consolidated statement of financial position.

	31 December 2017			2017		
	Net notional amount	Assets, fair value	Liabilities, fair value	Book Amount of the Hedged Item in the Statement of Financial Position	Changes in the Fair Value of the Hedged Item	Accumulated Amount of the Hedging Adjustments of the Fair Value in the Hedged Item
Fair value hedging derivatives						
Interest rate swaps	27	8 ¹	—	27	(1)	8
Interest rate options	—	—	—	—	—	—
Total fair value hedging derivatives	27	8	—	27	(1)	8

¹ Included in the "Non-current financial assets - Hedging Derivatives" in the accompanying consolidated statement of financial position.

At 31 December 2018 and 2017, cash flows projected for the coming years in relation to these derivatives are as follows:

Millions of Euros	Cash flow stratification expected						
	31 December 2018	2019	2020	2021	2022	2023	Subsequent
Present value (net of accumulated interest)							
Fair value hedging derivatives	7	1	1	1	1	1	4
Interest rate trading derivatives	(6)	(3)	(2)	(1)	(1)	—	—

Millions of Euros	Cash flow stratification expected						
	31 December 2017	2018	2019	2020	2021	2022	Subsequent
Present value (net of accumulated interest)							
Fair value hedging derivatives	8	1	1	1	1	—	4
Interest rate trading derivatives	(12)	(5)	(4)	(2)	(1)	—	—

Considering effective cash flow hedges, 59% of debt is protected from interest rate risk at 31 December 2018 (67% at 31 December 2017). Considering fair value hedges, this percentage was 59% at 31 December 2018 (67% at 31 December 2017).

Sensitivity analysis

At 31 December 2018 and 2017, the impact of interest-rate fluctuations on the consolidated income statement and statement of other consolidated income, other variables remaining constant, is as follows:

Millions of Euros					
		31 December 2018		31 December 2017	
	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	8	—	6	—
Interest rate reduction	-25	(8)	—	(6)	—
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
Interest rate reduction	-25	—	—	—	(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 2018 and 2017 is as follows:





Millions of Euros

31 December 2018						
Exchange rate derivatives	Notional Net	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives						
Futures	2,137	54	1,530	63	607	(9)
Trading derivatives						
Futures	96	(4)	24	—	72	(4)
Total futures	2,233	50	1,554	63	679	(13)
Total EXCHANGE RATE DERIVATIVES	2,233	50	1,554	63	679	(13)

Millions of Euros

31 December 2017						
Exchange rate derivatives	Notional Net	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)

The effect of hedging derivatives in the Consolidated Statement of Financial Position, in the Consolidated Income

Statement and in the Consolidated Statement of Other Comprehensive Income was as follows:

Millions of Euros

31 December 2018					2018	
Notional Net	Assets, fair value	Liabilities, fair value	Changes in the fair value in the statement of other comprehensive income	Amount reclassified from the statement of other comprehensive income to the income statement ⁴	Amount reclassified from the statement of other comprehensive income to the income statement ⁵	
Cash flow hedging derivatives						
Futures	2,137	63 ¹	(9) ²	87	(5) ³	—
Total cash flow hedging derivatives	2,137	63	(9)	87	(5)	—

¹ Included in the "Trade and other receivables - Non-financial derivatives" section of the consolidated statement of financial position.

² Included in the "Other non-current liabilities - Non-financial derivatives" section of the consolidated statement of financial position.

³ Included in the "Procurements and services" section of the consolidated statement of financial position.

⁴ Amount reclassified from the income statement because the hedged item has affected the profit/loss.

⁵ Amount reclassified from the income statement because the future cash flows are no longer expected to occur.

Millions of Euros

31 December 2017					2017	
Notional Net	Assets, fair value	Liabilities, fair value	Changes in the fair value in the statement of other comprehensive income	Amount reclassified from the statement of other comprehensive income to the income statement ⁴	Amount reclassified from the statement of other comprehensive income to the income statement ⁵	
Cash flow hedging derivatives						
Futures	1,345	1 ¹	(35) ²	(41)	(20) ³	—
Total cash flow hedging derivatives	1,345	1	(35)	(41)	(20)	—

¹ Included in the "Trade and other receivables - Non-financial derivatives" section of the consolidated statement of financial position.

² Included in the "Other non-current liabilities - Non-financial derivatives" section of the consolidated statement of financial position.

³ Included in the "Procurements and services" section of the consolidated statement of financial position.

⁴ Amount reclassified from the income statement because the hedged item has affected the profit/loss.

⁵ Amount reclassified from the income statement because the future cash flows are no longer expected to occur.

At 31 December 2018 and 2017, cash flows projected for the coming years in relation to these derivatives are as follows:

Millions of Euros							
Present value (net of accumulated interest)	Cash flow stratification expected						
	31 December 2018	2019	2020	2021	2022	2023	Subsequent
Cash flow hedging derivatives	54	39	15	1	—	—	—
Exchange rate derivatives - trading	(4)	(3)	(1)	—	—	—	—

Millions of Euros							
Present value (net of accumulated interest)	Cash flow stratification expected						
	31 December 2017	2018	2019	2020	2021	2022	Subsequent
Cash flow hedging derivatives	(34)	(25)	(8)	(1)	—	—	—
Exchange rate derivatives - trading	(3)	(3)	—	—	—	—	—

At 31 December 2018 and 2017, no non-current debt was denominated in foreign currencies, while cash and cash equivalents stood at Euros 2 million (31 December 2017: Euros 1 million) (see Note 14).

Sensitivity analysis

At 31 December 2018 and 2017, the impact of exchange-rate fluctuations of the euro against the US dollar (USD) on the consolidated income statement and consolidated statement of other comprehensive income, other variables remaining constant, is as follows.

Millions of Euros					
	Percentage variation	31 December 2018		31 December 2017	
		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%	—	171	—	111
Euro appreciation	10%	—	(139)	—	(91)
Fair value					
Euro depreciation	10%	—	—	—	—
Euro appreciation	10%	—	—	—	—
Fair value of derivative instruments not designated as hedging instruments					
Euro depreciation	10%	(4)	—	15	—
Euro appreciation	10%	3	—	(12)	—





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 2018 and 2017 is as follows :

Millions of Euros

Commodities derivatives	31 December 2018					
	Notional Net	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives	2,834	(35)	1,402	142	1,432	(177)
Liquid fuel and gas swaps	2,341	(37)	1,101	126	1,240	(163)
Coal derivatives	102	(2)	49	2	53	(4)
Electricity swaps	385	5	252	14	133	(9)
Other physical derivatives	6	(1)	—	—	6	(1)
Derivatives not designated as hedging instruments	2,076	(69)	940	107	1,136	(176)
Liquid fuel and gas swaps	1,160	(78)	476	49	684	(127)
Other liquid fuel and gas derivatives	143	—	69	8	74	(8)
Electricity swaps	705	8	369	46	336	(38)
Electricity options	18	—	—	—	18	—
Other electricity derivatives	6	—	4	1	2	(1)
Coal swaps	27	—	9	1	18	(1)
Other coal derivatives	—	—	—	—	—	—
Other physical derivatives	17	1	13	2	4	(1)
Total COMMODITIES DERIVATIVES	4,910	(104)	2,342	249	2,568	(353)

Millions of Euros

	31 December 2017					
	Notional Net	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Commodities derivatives						
Cash flow hedging derivatives	1,825	48	1,077	119	748	(71)
Liquid fuel and gas swaps	1,111	23	668	63	443	(40)
Coal derivatives	241	42	199	43	42	(1)
Electricity swaps	473	(17)	210	13	263	(30)
Other physical derivatives	—	—	—	—	—	—
Derivatives not designated as hedging instruments	1,016	18	537	67	479	(49)
Liquid fuel and gas swaps	435	13	222	32	213	(19)
Other liquid fuel and gas derivatives	22	1	12	2	10	(1)
Electricity swaps	489	1	250	30	239	(29)
Electricity options	13	—	—	—	13	—
Other electricity derivatives	1	—	1	—	—	—
Coal swaps	4	1	4	1	—	—
Other coal derivatives	33	1	29	1	4	—
Other physical derivatives	19	1	19	1	—	—
Total COMMODITIES DERIVATIVES	2,841	66	1,614	186	1,227	(120)

The effect of hedging derivatives in the Consolidated Statement of Financial Position, in the Consolidated Income Statement and in the Consolidated Statement of Other Comprehensive Income was as follows:

Millions of Euros

	31 December 2018				2018	
	Notional Net	Assets, fair value	Liabilities, fair value	Changes in the fair value in the consolidated statement of other comprehensive income	Amount reclassified from the consolidated statement of other comprehensive income to the consolidated income statement ⁵	Amount reclassified from the consolidated statement of other comprehensive income to the consolidated income statement ⁶
Cash flow hedging derivatives						
Liquid fuel and gas derivatives	2,341	126 ¹	(163) ²	(112)	43 ³	—
Coal derivatives	102	2 ¹	(4) ²	(44)	55 ⁴	—
Electricity derivatives	385	14 ¹	(9) ²	47	(16) ³	—
Other physical derivatives	6	—	(1) ²	(1)	—	—
Total cash flow hedging derivatives	2,834	142	(177)	(110)	82	—

¹ Included in the "Trade and other receivables - Non-financial derivatives" section of the consolidated statement of financial position.

² Included in the "Trade payables and other current liabilities - Non-financial derivatives" section of the consolidated statement of financial position.

³ Included in the "Income" and "Procurements and services" sections of the consolidated statement of financial position.

⁴ Included in the "Procurements and services" section of the consolidated statement of financial position.

⁵ Amount reclassified from the income statement because the hedged item has affected the profit/loss.

⁶ Amount reclassified from the income statement because the future cash flows are no longer expected to occur.





Millions of Euros

	31 December 2017				2017	
	Notional Net	Assets, fair value	Liabilities, fair value	Changes in the fair value in the consolidated statement of other comprehensive income	Amount reclassified from the consolidated statement of other comprehensive income to the consolidated income statement ⁵	Amount reclassified from the consolidated statement of other comprehensive income to the consolidated income statement ⁶
Cash flow hedging derivatives						—
Liquid fuel and gas derivatives	1,111	63 ¹	(40) ²	27	8 ³	—
Coal derivatives	241	43 ¹	(1) ²	(24)	70 (4)	—
Electricity derivatives	473	13 ¹	(30) ²	(13)	48 ³	—
Other physical derivatives	—	—	—	—	—	—
Total cash flow hedging derivatives	1,825	119	(71)	(10)	126	—

¹ Included in the "Trade and other receivables - Non-financial derivatives" section of the consolidated statement of financial position.

² Included in the "Trade payables and other current liabilities - Non-financial derivatives" section of the consolidated statement of financial position.

³ Included in the "Income" and "Procurements and services" sections of the consolidated statement of financial position.

⁴ Included in the "Procurements and services" section of the consolidated statement of financial position.

⁵ Amount reclassified from the income statement because the hedged item has affected the profit/loss.

⁶ Amount reclassified from the income statement because the future cash flows are no longer expected to occur.

The breakdown of fair value projected for the coming years in relation to these derivatives at 31 December 2018 and 2017 is as follows:

Millions of Euros

Fair Value	Fair value stratification						
	31 December 2018	2019	2020	2021	2022	2023	Subsequent
Cash flow hedging derivatives							
Electricity derivatives	5	4	1	—	—	—	—
Coal derivatives	(2)	(2)	—	—	—	—	—
Liquid fuel and gas derivatives	(37)	(16)	(22)	1	—	—	—
Other physical derivatives	(1)	—	(1)	—	—	—	—
Derivatives not designated as hedging instruments							
Electricity derivatives	8	4	2	—	1	1	—
Coal derivatives	—	—	—	—	—	—	—
Liquid fuel and gas derivatives	(78)	(77)	(1)	—	—	—	—
Other physical derivatives	1	1	—	—	—	—	—

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)	—	—	—
Other physical derivatives	—	—	—	—	—	—	—
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	—	—	—	—	—

Sensitivity analysis

Details of the impact on the value of existing commodities derivatives at 31 December 2018 and 2017 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 2018		31 December 2017	
		Consolidated Income Statement	Consolidated statement of other comprehensive income	Consolidated Income Statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	—	34	—	20
	–10%	—	(33)	—	(18)
Coal derivatives	10%	—	8	—	28
	–10%	—	(8)	—	(28)
Liquid fuel and gas derivatives	10%	—	(39)	—	9
	–10%	—	39	—	(9)

Millions of Euros					
Derivatives not designated as hedging instruments	Fluctuations in commodity prices	31 December 2018		31 December 2017	
		Consolidated Income Statement	Consolidated statement of other comprehensive income	Consolidated Income Statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	8	—	4	—
	–10%	(7)	—	(4)	—
Coal derivatives	10%	—	—	—	—
	–10%	—	—	—	—
Liquid fuel and gas derivatives	10%	8	—	4	—
	–10%	(14)	—	(4)	—
Other physical derivatives	10%	1	—	2	—
	–10%	(1)	—	(2)	—

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, available 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, respectively.

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 2018 and 2017, ENDESA's liquidity was as follows:

Millions of Euros

	Notes	31 December 2018			31 December 2017		
		Current	Non-current	Total	Current	Non-current	Total
Cash and Cash Equivalents	14	244	—	244	399	—	399
Unconditional undrawn credit facilities ¹	18.2.1	17	2,779	2,796	114	2,982	3,096
Liquidity		261	2,779	3,040	513	2,982	3,495

¹ At 31 December 2018 and 2017, Euros 1,000 million were accounted for by the committed and irrevocable line of credit arrangement with ENEL Finance International, N.V.

At 31 December 2018, ENDESA has negative working capital of euros 2,039 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 2018, debt to third parties totals Euros 751 million, which represents 15.4 equivalent invoicing days (2017: Euros 741 million and 16.6 equivalent invoicing days, respectively).

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 2018, the greatest exposure to cash positions held with a counterparty not belonging to the ENEL Group amounted to Euros 24 million (31 December 2017: Euros 142 million).

→ Interest-rate and exchange-rate derivatives are arranged with highly solvent entities, whereby at 31 December 2018, more than 76% of interest-rate and exchange-rate derivative exposures relate to transactions

with entities with a credit rating of "A-" or higher (100% at year-end 2017).

- Credit risk associated with financial instruments arranged on commodities is limited. At 31 December 2018, taking market values as a basis, exposure to commodity derivatives was less than Euros 15 million (less than Euros 12 million at 31 December 2017).
- At 31 December 2018, the maximum accumulated credit risk by counterparty arising from interest rate, exchange rate and commodities derivatives, totals Euros 23 million, and therefore no counterparties accumulate more than 31% of the total credit risk related to financial instruments (31 December 2017: Euros 8 million and 41% total, respectively).

At 31 December 2018, there were guarantees, letters of guarantee, and pledges received for commercial transactions, as follows:

Millions of Euros

	31 December 2018	31 December 2017
Companies	10	7
Large customers	153	176
Commodity market counterparties	367	263
Total	530	446

At 31 December 2018 and 2017, ENDESA had not pledged significant guarantees, letters of guarantee or pledges.

Due dates and expected loss of financial assets

At 31 December 2018 and 2017 the breakdown of trade receivables for sales and services rendered by due dates and expected loss of them are as follows:

Millions of Euros

Notes	31 December 2018			31 December 2017
	Customers for Sales and Service Provision	Weighted Average of Expected Loss Rates	Correction of Value for Expected Losses	Customers for Sales and Service Provision
Not due	1,954	0.1%	1	1,983
Due:	624	61.9%	386	737
Less than three months	108	10.2%	11	278
Three to six months	68	29.4%	20	38
Six to twelve months	97	51.5%	50	20
Over twelve months	351	86.9%	305	401
Total	2,578	15.0%	387	2,720

Analysis of counterparty risk

At 31 December 2018 and 2017, 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 2018	31 December 2017
Cash and cash equivalents	14	244	399
A+		6	1
A		57	2
A-		55	43
BBB+		43	27
BBB		30	244
BBB-		35	53
BB+		10	5
BB		3	—
B+		—	3
Counterparty without credit rating		5	21
Available-for-sale Financial Assets	19.1.2	6	6
A-		3	—
BBB+		—	3
Counterparty without credit rating		3	3
Hedging financial derivatives	19.3	7	8
A+		7	8
A		—	—
Non-financial Derivatives	13 and 19.3	312	191
AAA		34	22
AA-		8	—
A+		7	—
A		15	4
A-		31	1
BBB+		190	19
BBB		—	1
BBB-		21	1
BB+		3	1
BB		2	136
BB-		1	—
B+		—	6
Financial assets¹		1,744	1,488
Financing of the revenue shortfall from regulated activities in Spain	4 and 19.1.1	236	222
Compensation for extra-costs in non-mainland generation (TNP)	4 and 19.1.1	609	304
Guarantee deposits	19.1.1	437	424
Loans to employees	19.1.1	33	33
Loans to Associated Companies, Joint Ventures and Joint Operation Entities	19.1.1 and 35.2	67	71
Remuneration of the distribution activity	4 and 19.1.1	238	176
Remuneration to the investment in Renewable Energies	4 and 19.1.1	1	4
Other financial assets	19.1.1	143	256
Impairment losses		(20)	(2)
Total		2,313	2,092

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 other 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 2018, 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 2018, 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 2.9% at that date (12% and 2.3%, respectively, at 31 December 2017).

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.

At 31 December 2018, its top 10 suppliers did not represent more than 25.6% of the total (31 December 2017: 34.4%).



21. Other non-current liabilities

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Guarantee and deposits	19.1.1 and 19.2.1	487	462
Derivatives	19.3	90	34
Hedging derivatives		74	30
Derivatives not designated as hedging instruments		16	4
Other payables	19.2.1	180	150
Total		757	646

22. Deferred tax assets and liabilities

22.1. Deferred tax assets

At 31 December 2018 and 2017, the origin of the deferred tax assets recognised in both periods is as follows:

Millions of euros

	31 December 2018	31 December 2017
Deferred tax assets arising from:		
Depreciation and amortisation of assets	164	147
Provisions for pension funds and workforce reduction plans	582	598
Other provisions	228	265
Tax loss carryforwards	39	36
Unused tax credits	31	60
Other	114	36
Total	1,158	1,142

In 2018 and 2017 the movements in “Deferred Tax Assets” of the Consolidated Statement of Financial Position was as follows:

Millions of Euros

	Deferred Tax Assets						
	Balance at 31 December 2017	Adjustments due to Changes in Accounting Policies IFRS 9 (Note 2.1)	Inclusion/ (Exclusion) of companies ¹	(Debit) / credit to profit and loss (Note 32)	(Debit) / credit to equity (Note 32)	Transfers and others	Balance at 31 December 2018
Depreciation and amortisation of assets	147	—	1	17	—	(1)	164
Provisions for pension funds and workforce reduction plans	598	—	—	(20)	4	—	582
Other provisions	265	—	—	(19)	—	(18)	228
Tax loss carryforwards	36	—	—	3	—	—	39
Unused tax credits	60	—	—	(29)	—	—	31
Other	36	22	7	15	19	15	114
Total	1,142	22	8	(33)	23	(4)	1,158

¹ Corresponds to the addition of Parques Eólicos Gestinver, S.L.U. in the consolidation scope. (see Note 5.2).

Millions of Euros

	Deferred Tax Assets					
	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	Balance at 31 December 2017
Depreciation and amortisation of assets	169	(8)	(11)	—	(3)	147
Provisions for pension funds and workforce reduction plans	677	—	(52)	(27)	—	598
Other provisions	266	—	(1)	—	—	265
Tax loss carryforwards	1	(1)	36	—	—	36
Unused tax credits	96	—	(36)	—	—	60
Other	15	—	(6)	13	14	36
Total	1,224	(9)	(70)	(14)	11	1,142

¹ Corresponds to the deconsolidation of Nueva Marina Real Estate, S.L. and the sale of the joint operation entities (see Notes 2.3.1 and 2.5.1).

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 2018 and 2017, there are recognised deferred taxes related to tax losses awaiting recognition amounting to Euros 12 million and Euros 13 million, respectively.

At 31 December 2018, there were deferred tax assets corresponding to tax loss carryforwards liable to be offset by future profits in the amount of Euros 39 million (Euros 36 million at 31 December 2017).

At 31 December 2018 and 2017 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 2018	31 December 2017
2027	—	5
2028	9	9
2029	—	1
2030	—	1
2031	—	1
2032	—	3
2033	—	7
2034	—	9
2035	—	5
No limit	22	19
Total	31	60

22.2. Deferred tax liabilities

At 31 December 2018 and 2017, the origin of the deferred tax liabilities recognised in both periods is as follows:

Millions of Euros		
	31 December 2018	31 December 2017
Deferred tax liabilities arising from:		
Accelerated depreciation and amortisation of assets for tax purposes	619	649
Other	518	448
Total	1,137	1,097

In 2018 and 2017 the movements in “Deferred Tax Liabilities” of the Consolidated Statement of Financial Position is as follows:

Deferred Tax Liabilities							
	Balance at 31 December 2017	Adjustments due to Changes in Accounting Policies IFRS 9 and IFRS 15 (Note 2.1)	Inclusion/ (Exclusion) of companies ¹	(Debit) / credit Profit and loss (Note 32)	(Debit) / credit Equity (Note 32)	Transfers and other	Balance at 31 December 2018
Accelerated depreciation and amortisation of assets for tax purposes	649	—	—	(29)	—	(1)	619
Other	448	33	15	12	13	(3)	518
Total	1,097	33	15	(17)	13	(4)	1,137

¹ Corresponds to the acquisition of the companies related to the awarded capacity granted in the renewable energy auctions (Euros 1 million) and the addition of Parques Eólicos Gestiver, S.L.U. to the consolidation scope. (Euros 9 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 5 million) (see Notes 2.3.1, 5.1, 5.2 and 5.4).

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 others		Balance at 31 December 2017
Accelerated depreciation and amortisation of assets for tax purposes	652	(1)	(10)	—	8		649
Other	449	1	(6)	7	(3)		448
Total	1,101	—	(16)	7	5		1,097

¹ Corresponds to the deconsolidation of Nueva Marina Real Estate, S.L. and the addition of the companies related to the awarded capacity granted in the renewable energy auctions (see Notes 2.3.1. and 5.1).

As of 31 December 2018 and 2017, there are no deferred tax liabilities not recorded in the Consolidated Statement of Financial Position associated with investments in subsidiaries, associates and jointly controlled entities in which ENDESA can control the reversal of these and is probable that do not revert in the foreseeable future.

22.3. Other information

Deferred tax assets and liabilities compensation

At 31 December 2018 and 2017, deferred taxes eligible for offset amounted to Euros 883 million and Euros 851 million, respectively.

Of total deferred tax assets and deferred tax liabilities at 31 December 2018 and 2017, the following may not be set off:

Millions of Euros

	31 December 2018	31 December 2017
Deferred tax assets not eligible for offset	275	291
Deferred tax liabilities not eligible for offset	254	246

Realisation of deferred tax assets and liabilities

The estimated deferred tax assets and liabilities recognised on the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros

	31 December 2018	31 December 2017
Deferred tax assets	1,158	1,142
Realisable in one year	89	113
Realisable in over a year	1,069	1,029
Deferred Tax Liabilities	1,137	1,097
Realisable in one year	29	28
Realisable in over a year	1,108	1,069





23. Trade payables and other current liabilities

Details of this heading in the consolidated statement of financial position at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Notes	31 December 2018	31 December 2017
Trade Payables and Other Current Liabilities	19	5,146	5,283
Suppliers and other Payables		3,644	4,071
Dividend Payable	15.1.9, 15.1.11 and 33.3	743	743
Other Payables		500	372
Current Liability Contracts with Customers		259	97
Derivatives	19.3	276	128
Hedging derivatives		112	76
Derivatives not designated as hedging instruments		164	52
Tax Liabilities		655	721
Current Income Tax		159	170
Value Added Tax (VAT) payable		47	39
Other Taxes		449	512
Total		6,077	6,132

At 31 December 2018 and 2017, the “Current Liabilities of Contracts with Customers” section includes the current part of the items detailed in Note 16 and the contracts for the execution of works that ENDESA Ingeniería, S.L.U. has entered into with Red Eléctrica de España, S.A.U. (REE).

During fiscal year 2018, the movement of current liabilities of contracts with customers is as follows:

Millions of Euros

	Notes	2018
Beginning balance		97
Transfer of Non-current Liabilities of Contracts with Customers	16	157
Recognitions		79
Imputation to Results	25.2	(157)
Transfers and others		83
Final Balance		259

At 31 December 2018 and 2017, the “Dividend Payable” section mainly includes the dividends corresponding to ENDESA, S.A.:

Million Euros					
	Notes	Dividend Payable to Date	Euros per share, gross	Amount	Payment date
2018 interim dividend	15.1.9, 15.1.11 and 33.3	31 December 2018	0.70	741	2 January 2019
2017 interim dividend	15.1.9, 15.1.11 and 33.3	31 December 2017	0.70	741	2 January 2018

At 31 December 2018, the amount of commercial debt discounted with financing entities for managing payments to suppliers (confirming), recognised under Trade and other payables, totalled Euros 58 million (31 December 2017: Euros 89 million).

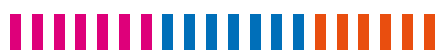
Financial income accrued by reverse factoring contracts in 2018 was less than Euros 1 million (Euros 1 million in 2017).

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

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 2010, in 2015:

Number of days		
	2018	2017
Average payment period to suppliers	14	16
Ratio of transactions paid	14	15
Ratio of transactions pending payment	51	47

Millions of Euros		
	2018	2017
Total payments made	16,592	18,485
Total payments pending	360	757





24. Current provisions

The breakdown of this heading on the consolidated statement of financial position at 31 December 2018 and 2017 is as follows:

Millions of Euros			
	Notes	31 December 2018	31 December 2017
Provisions for workforce restructuring plans		188	186
Workforce reduction plans	172.1	65	73
Contract suspensions	172.2	123	113
Carbon dioxide emission allowances (CO2)	12.1	359	215
Other Current Provisions		24	24
Total		571	425

25. Income

During 2018 and 2017, the breakdown of income on the consolidated income statement is as follows:

Millions of Euros		
	2018	2017
Revenue	19,555	19,556
Other operating income	640	501
Total	20,195	20,057

25.1. Revenue from sales

The details of this section, by Segment, of the 2018 and 2017 Consolidated Income Statements relating to income from ordinary activities from contracts with customers, is as follows:

Millions of Euros

	2018	2017
Generation and supply	17,203	17,223
Electricity sales	14,137	14,451
Sales to the deregulated market	9,236	9,533
Sales to customers in the deregulated market in Spain	8,227	8,457
Sales to customers in deregulated markets outside Spain	1,009	1,076
Sales at regulated prices	2,339	2,460
Wholesale market sales	1,130	1,137
Compensations for Non-mainland Territories (TNP)	1,318	1,215
Remuneration to the investment in Renewable Energies	96	95
Other electricity sales	18	11
Gas sales	2,554	2,233
Sales to the deregulated market	2,469	2,150
Sales at regulated prices	85	83
Other sales and services rendered	512	539
Distribution	2,509	2,492
Regulated revenue from electricity distribution	2,209	2,231
Other sales and services rendered	300	261
Structure and Others¹	(157)	(159)
Other sales and services rendered	(157)	(159)
Total²	19,555	19,556

¹ Structure, Services and Adjustments.

² See Note 34.2.1.

In 2018 and 2017, the details of sales to external customers in the main geographical areas is as follows:

Millions of Euros

Country	2018	2017
Spain	17,686	17,659
Portugal	942	1,068
France	510	435
Germany	200	226
United Kingdom	55	14
Netherlands	55	63
Other	107	91
Total	19,555	19,556

25.2. Other operating income

Details of this section, by Segments, of the 2018 and 2017 consolidated income statement are as follows:

Millions of Euros

	Notes	2018	2017
Generation and supply		418	286
Changes in fuel stock derivatives		294	158
Grants released to income ¹		7	14
Trading Rights		37	42
Third Party Compensations		8	7
Other		72	65
Distribution		275	258
Grants released to income ¹		14	16
Recognition of contract liabilities from contracts with customers in profit or loss	23	157	153
Rendering of services at plants		6	10
Trading Rights		5	3
Third Party Compensations		23	11
Other		70	65
Structure and Others²		(53)	(43)
Third Party Compensations		-	2
Other		(53)	(45)
Total^{3,4}		640	501

¹ Includes Euros 18 million relating to capital grants (see Note 16) and Euros 3 million of operating grants in 2018 (22 million euros and 8 million euros, respectively, in 2017).

² Structure, Services and Adjustments.

³ Includes Euros 239 million relating to income from ordinary activities of contracts with customers (euros 236 million in the year 2017).

⁴ See Note 34.2.1.





26. Procurements and services

26.1. Power Purchases

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros		
	2018	2017
Electricity	2,946	3,261
Fuel stocks	1,838	1,672
Gas	1,838	1,672
Total	4,784	4,933

26.2. Fuel consumption

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros		
	2018	2017
Fuel stocks	2,269	2,294
Coal	836	909
Nuclear fuel	118	137
Fuel Oil	979	836
Gas	336	412
Total	2,269	2,294

26.3. Other variable procurements and services

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros		
	2018	2017
Changes in fuel stock derivatives	247	182
Environmental fees and taxes	585	642
Carbon dioxide emission allowances (CO2)	361	214
Street lighting / works licences	190	162
Treatment of radioactive waste	166	182
Other Costs Associated with New Products and Services	179	151
Social Bonus	88	(141)
Other variable costs	235	298
Total	2,051	1,690

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 (see Notes 4 and 17.3).

27. Personnel expenses

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2018	2017
Wages and salaries		664	676
Contributions to pension schemes	17.1	84	64
Provisions for workforce restructuring plans		4	(8)
Provisions for workforce reduction plans	17.2.1	2	(4)
Provisions for contracts suspension	17.2.2	2	(4)
Other personnel expenses/employee benefits expense		195	185
Total		947	917

28. Other fixed operating expenses

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2018	2017
Repairs and maintenance		303	348
Insurance premiums		61	59
Independent professional services and external services		72	72
Leases and levies	9.2	44	44
Taxes other than income tax		112	130
Travel expenses		23	22
Other fixed operating expenses		709	576
Total		1,324	1,251





29. Depreciation and amortisation, and impairment losses

During 2018 and 2017, the breakdown of this heading on the consolidated income statement is as follows:

Millions of Euros

	Notes	2018	2017
DEPRECIATION AND AMORTISATION		1,480	1,350
Provision for the depreciation of property, plant and equipment	6	1,259	1,200
Provision for amortisation of intangible assets	8	221	150
IMPAIRMENT LOSSES		228	161
Non-financial assets		148	(21)
Impairment of property, plant and equipment and investment property	6, 7 and 34.2	153	(13)
Lands in Palma de Mallorca ENDESA Distribución Eléctrica, S.L.U.		—	(14) ¹
Thermal Power Plant of Alcudia (Balearic Islands)	3e.2	157 ²	—
Other property, plant and equipment and investment property		(4)	1
Provision for impairment losses on intangible assets	8 and 34.2	(6)	(8)
Other intangible assets		(6)	(8)
Impairment of goodwill	10 and 34.2	1	—
Balearic Islands cash-generating unit (CGU)	3e.2	1 ²	—
Financial assets	19.4.1 and 34.2	80	182
Provision for impairment on receivables from contracts with customers	13.1	79	182
Provision for impairment losses on other financial assets	19.1.1	1	—
Total		1,708	1,511

¹ Euros 11 million, net of the related tax effect.

² Euros 119 million, net of the related tax effect.

30. Net financial results

During 2018 and 2017, the breakdown of sales on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2018	2017
Finance Income		33	40
Income from financial assets at amortised cost		10	19
Income from Financial Assets at Fair Value with Changes in the Income State		—	—
Income for workforce restructuring plans	17.2.	5	12
Other financial income		18	9
Finance Expenses		(169)	(172)
Expenses for financial liabilities at amortised cost	19.4.2	(129)	(133)
Expenses for financial liabilities at fair value with changes in the income statement	2.1	(1)	—
Expenses for workforce restructuring plans	17.2	(6)	(8)
Expenses for other provisions	17.3	(14)	(17)
Capitalised finance costs	3a.1 and 3i.1	4	8
Post-employment obligations expense	17.1	(15)	(18)
Expenses for impairment losses on other financial assets	19.1.1	3	—
Other financial expenses		(11)	(4)
Gains/(losses) on derivative financial instruments		3	11
Income from cash flow hedges		—	—
Income from derivatives at fair value with changes in profit/loss	19.4.1	1	5
Income from fair value hedging derivatives		1	3
Income from the measurement of financial instruments at fair value	19.4.1	1	3
Finance costs on derivative financial instruments		(4)	(6)
Cash flow hedge expenses	19.4.2	—	(6)
Expenses from derivatives at fair value with changes in profit/loss	19.4.2	(3)	2
Expenses for fair value hedging derivatives	19.4.2	(1)	(2)
Expenses from the measurement of financial instruments at fair value		—	—
Exchange gains/(losses)		(2)	4
Gains		28	22
Losses		(30)	(18)
Net financial gain/(loss)		(139)	(123)





31. Gains/(losses) on disposal of assets

The main transactions in 2018 and 2017 were as follows:

Millions of Euros			
	Notes	2018	2017
Non-financial assets		38	34
Land Sant Adrià del Besòs	11.1	34 ¹	—
Other gains/(losses)		4	34
Proceeds from sale of investments in Group companies and other		—	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		4	7
Other		—	14
Financial assets		(35)	(27)
Factoring transaction fees	13.1 and 19.1.1	(35)	(27)
NET Total		3	7

¹ Euros 25 million, net of the related tax effect.

32. Income tax expense

During 2018 and 2017, the breakdown of sales on the consolidated income statement is as follows:

Millions of Euros			
	Notes	2018	2017
Current income tax for the year		356	370
Deferred income tax for the year	22	16	54
Adjustments of prior years		11	1
Income tax provisions		9	2
Total		392	427

Reconciliation between accounting profit and the income tax expense

The 2018 and 2017 reconciliation of the accounting profit (loss) from continuing activities to the income tax expense is as follows:





Millions of Euros

	2018					
	Income Statement	Rate (%)	Income and expenses directly recognised in equity	Rate (%)	Total	Rate (%)
Accounting profit after income tax	1,426	—	(44)	—	1,382	—
Income Tax Expense	392	—	(10)	—	382	—
Accounting profit before tax	1,818	—	(54)	—	1,764	—
Theoretical tax	455	25.0	(14)	25.0	441	25.0
Permanent differences	(28)	—	4	—	(24)	—
Impact of net gains/losses under the equity consolidated method	(8)	—	—	—	(8)	—
Unreconised tax losses	—	—	—	—	—	—
Tax credit from the Canary Islands Reserve (CIR)	(5)	—	—	—	(5)	—
Non-deductible provisions	(3)	—	—	—	(3)	—
Consolidation adjustments and others	(12)	—	4	—	(8)	—
Tax credits taken to profit and loss	(39)	—	—	—	(39)	—
Prior years' adjustments and other deferred taxes	(16)	—	—	—	(16)	—
Tax impact in the year	372	20.5	(10)	17.9	362	20.5

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)	—	(1)	—	(9)	—
Unreconised tax losses	—	—	—	—	—	—
Tax credit from the Canary Islands Reserve (CIR)	(5)	—	—	—	(5)	—
Non-deductible provisions	(3)	—	—	—	(3)	—
Consolidation adjustments and others	2	—	(5)	—	(3)	—
Tax credits taken to profit and loss	(34)	—	—	—	(34)	—
Prior years' adjustments and other deferred taxes	(3)	—	—	—	(3)	—
Tax impact in the year	424	22.3	21	19.6	445	22.2

Reconciliation of net tax

In 2018 and 2017, the reconciliation of the income tax expense to the net tax from continuing activities is as follows:

Millions of Euros

	Notes	2018		Total
		Income Statement	Income and expenses directly recognised in equity	
Tax impact in the year		372	(10)	362
Change in deferred tax	22.1 and 22.2	(16)	10	(6)
Net income tax of continuing operations		356	—	356

Millions of Euros

	Notes	2017		Total
		Income Statement	Income and expenses directly recognised in equity	
Tax impact in the year		424	21	445
Change in deferred tax	22.1 and 22.2	(54)	(21)	(75)
Net income tax of continuing operations		370	—	370

Details of the income tax expense

The breakdown of the income tax expense for 2018 and 2017 is as follows:

Millions of Euros

	2018		Total
	Tax Current	Change in Deferred tax (Note 22)	
Recognition in the income statement, of which:	356	16	372
Net income of continuing operations	356	—	356
Deferred taxes	—	16	16
Depreciation and amortisation of assets	—	(17)	(17)
Provisions for pension funds and work force reduction plans	—	20	20
Other provisions	—	19	19
Tax loss carryforwards	—	(3)	(3)
Unused tax credits	—	29	29
Accelerated depreciation and amortisation of assets for tax purposes	—	(29)	(29)
Other	—	(3)	(3)
Recognition in equity, of which:	—	(10)	(10)
Provisions for pension funds and work force reduction plans	—	(4)	(4)
Other	—	(6)	(6)
Tax impact in the year	356	6	362





Millions of Euros

	2017		Total
	Tax Current	Change in deferred taxes (Note 22)	
Recognition in the 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 workforce 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)
Other	—	—	—
Recognition in equity, of which:	—	21	21
Provisions for pension funds and workforce reduction plans	—	27	27
Other	—	(6)	(6)
Tax impact in the year	370	75	445

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 1994, modifying the Canary Islands economic and tax regime as regards its regulation and implementation.

The most representative deductions in tax credits in 2018 totalled Euros 39 million, and include Euros 16 million in credits related to the production of movable tangible property in the Canary Islands and Euros 14 million for deductions on the investments in fixed assets in the Canary Islands (2016: Euros 19 million and Euros 8 million respectively).

33. Statement of cash flows

At 31 December 2018, cash and cash equivalents stood at Euros 244 million (Euros 399 million at 31 December 2017) (see Note 14).

In 2018 and 2017, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros	Statement of Cash Flows	
	2018	2017
Net cash flows from operating activities	2,420	2,438
Net Cash Flows used in Investing Activities	(1,627)	(1,115)
Net Cash Flows used in Financing Activities	(948)	(1,342)

In 2018, net cash flows from operating activities (Euros 2,420 million) and the Euros 155 million decline in cash and cash equivalents helped cover the net investment required to conduct ENDESA's businesses (Euros 1,627 million), in addition to net cash flows from financing activities (Euros 948 million).

33.1. Net cash flows from operating activities

In 2018, net cash flows from operating activities amounted to Euros 2,420 million (Euros 2,438 million in 2017), with the same being as follows:





Millions of Euros

	Notes	2018	2017
Profit before Tax		1,818	1,900
Adjustments for:		1,910	1,579
Depreciation and amortisation, and impairment losses	29	1,708	1,511
Other adjustments (Net)		202	68
Changes in Working Capital		(653)	(370)
Trade and Other Receivables		298	(387)
Inventories		(361)	(241)
Current financial assets		(285)	(554)
Trade Payables and Other Current Liabilities		(305)	812
Other Cash Flows from/(used in) Operating Activities:		(655)	(671)
Interest received		29	44
Dividends received		30	27
Interest paid		(142)	(134)
Income tax paid		(326)	(350)
Other receipts from and payments for operating activities ¹		(246)	(258)
Net cash flows from operating activities		2,420	2,438

¹ Including provision payments.

The variations in the different items determining the net cash flows from operating activities include:

- The higher profit before tax and non-controlling interests net of depreciation and amortisation and other adjustments for the year (Euros 249 million).
- Changes in working capital between both years amounting to Euros 283 million, mainly as a result of the increase in payments to commercial creditors for Euros 1,117 million, of the positive performance of commercial debtors and other accounts receivable for an amount of Euros 685 million and the highest charg-

es for offsetting extra-costs of non-mainland generation for Euros 397 million (see Notes 4, 13, 19.1.1 and 23).

In 2018, the Company has also continued with its active policy concerning the management of current assets and current liabilities, focusing on, among other aspects, the improvement of processes, the factoring of accounts receivable and agreements extending payment periods with suppliers (see Notes 13 and 23).

At 31 December 2018 and 2017, working capital broke down as follows:

Millions of Euros

	Notes	Working capital	
		31 December 2018	31 December 2017
Current Assets¹		5,410	5,131
Inventories	12	1,473	1,267
Trade and Other Receivables	13	2,955	3,100
Current financial assets	19	982 ²	764 ³
Current Liabilities⁴		6,648	6,557
Current Provisions	24	571	425
Trade Payables and Other Current Liabilities	23	6,077 ⁵	6,132 ⁶

¹ Excluding "Cash and Cash Equivalents" and Financial Derivative Assets corresponding to financial debt.

² Includes Euros 236 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 83 million concerning remuneration for the electricity distribution activity and Euros 609 million corresponding to generation extra-costs in Non-Mainland Territories.

³ Includes Euros 222 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 70 million concerning remuneration for the electricity distribution activity and Euros 304 million corresponding to generation extra-costs in Non-Mainland Territories.

⁴ Excluding "Current Financial Debt" and Financial Derivative Liabilities corresponding to financial debt.

⁵ Includes the interim dividend with a charge against 2018 profits of Euros 741 million, paid on 2 January 2019 (see Note 15.1.9.)

⁶ Includes the interim dividend with a charge against 2017 profits of Euros 741 million, paid on 2 January 2018 (see Notes 15.1.9 and 15.1.11.)

33.2. Net cash flows used in investing activities

During 2018, net cash flows used in investing activities amounted to Euros 1,627 million (Euros 1,115 million in 2017) and include, among other aspects:

- Net cash payments applied to the acquisitions of property, plant and equipment and intangible assets:

Millions of Euros			
	Notes	2018	2017
Acquisitions of property, plant and equipment and intangible assets		(1,425)	(1,078)
Acquisitions of property, plant and equipment	6	(1,203)	(978)
Acquisitions of intangible assets	8	(231)	(133)
Facilities transferred from customers		74	101
Suppliers of property, plant and equipment		(65)	(68)
Proceeds from sales of property, plant and equipment and intangible assets		8	15
Grants and other deferred income		86	92
Total		(1,331)	(971)

- Net cash payments for investments and/or receipts from disposals of holdings in Group companies:

Millions of Euros			
	Notes	2018	2017
Purchase of Investments in Group Companies		(136)	(2)
Corporate transactions related to capacity awarded in renewable power auctions	5.1	(5)	(1)
Parques Eólicos Gestinver, S.L.U.	5.2	(45)	—
Eólica del Principado, S.A.U.	5.3	(1)	—
Empresa de Alumbrado Eléctrico de Ceuta, S.A.	5.4	(83)	—
Front Marítim del Besòs, S.L.		(1)	—
Eléctrica del Ebro, S.A.U.		(1)	—
Eléctrica de Jafre, S.A.	5.6	—	(1)
Proceeds from sale of investments in group companies		20	16
Nueva Marina Real Estate, S.L. ¹	2.3.1	20	—
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	—	16
Total		(116)	14

¹ Sale formalised in 2017.



33.3. Net cash flows used in financing activities

During 2018, net cash flows applied to financing activities amounted to Euros 948 million (Euros 1,342 million in 2017) and mainly include the following aspects:

→ Cash flows from equity instruments:

Millions of Euros	Notes	2018	2017
Capital reduction at Eólica Valle del Ebro, S.A.	15.2	(1)	—
Funds contribution by Tauste Energía Distribuida, S.L.	15.2	3	—
Funds contribution by Bosa del Ebro, S.L.	15.2	3	—
Acquisition of non-controlling interests in Productor Regional de Energía Renovable, S.A.U. and Productor Regional de Energías Renovables III, S.A.U.	2.3.1	—	(3)
Total		5	(3)

→ Draw downs of non-current financial debt:

Millions of Euros	Notes	2018	2017
Draw downs from the European Investment Bank (EIB)	18.2.2	500	300
Draw downs from credit facilities		206	—
Other		15	15
Total	18.1	721	315

→ Reimbursements from non-current financial debt:

Millions of Euros	Notes	2018	2017
Amortisation bank loans Productor Regional de Energía Renovable, S.A.U.	18.2.2	(44)	—
Repayment of Lines of Credit		(12)	—
Repayment of Natixis loans		—	(21)
Amortisation of Bonds Issued by International ENDESA B.V.		—	(20)
Other		—	(33)
Total	18.1	(56)	(74)

→ Amortisations and drawdowns of current financial debt:

Millions of Euros	Notes	2018	2017
Repaid			
Amortisation of ECP issued by International ENDESA B.V.		(7,406)	(5,604)
Repayments of ENEL Finance B.V. credit facilities		(6,600)	(2,150)
Amortisation of Parque Eólico Gestinver, S.L.U. bank loan	18.2.2	(116)	—
Amortisation of Instituto de Crédito Oficial (ICO) loan		—	(45)
Amortisation of bonds issued by ENDESA Capital, S.A.U.		—	(36)
Amortisation of European Investment Bank (EIB) loan		—	(13)
Other		(95)	(121)
Drawn downs			
Emissions of ECP issued by International ENDESA B.V.		7,422	5,561
Draw downs of ENEL Finance B.V. credit facilities		6,600	2,150
Other		49	93
Total	18.1	(146)	(165)

→ Dividends paid:

Millions of Euros	Notes	2018	2017
Parent Dividends Paid	15.1.9 and 15.1.11	(1,463)	(1,411)
Dividends to Non-controlling Interests Paid ¹	15.2	(9)	(4)
Total		(1,472)	(1,415)

¹ Corresponding to companies of ENEL Green Power España, S.L.U. (EGPE).

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 financial information analysed by the Executive Committee of the Company Management for the purposes of taking its decisions is the Segment information, which includes:

- Generation, together with Supply;
- Distribution;
- Structure, mainly including the balances and transactions of holding companies and financing and service provision companies; 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 2018 and 2017.

34.2. Segment information

Segment information in the consolidated income statements for 2018 and 2017, the consolidated statements of financial position and consolidated statements of cash flows at 31 December 2018 and 2017, and the consolidated statements of financial position for the years ended 31 December 2018 and 2017 is as follows:



34.2.1. Segment Information: Consolidated Income Statement for the year ended 31 December 2018 and Consolidated Statement of Financial Position for the year ended 31 December 2018

Millions of euros

	2018				
	Generation and Supply ¹	Distribution ²	Structure ³	Consolidated Adjustments and Eliminations	Total
Income	17,621	2,784	614	(824)	20,195
Revenue (Note 25.1)	17,203	2,509	596	(753)	19,555
Other operating income (Note 25.2)	418	275	18	(71)	640
Procurements and services	(14,464)	(201)	(81)	179	(14,567)
Power Purchased	(4,781)	(3)	—	—	(4,784)
Fuel Consumption	(2,269)	—	—	—	(2,269)
Transport Costs	(5,457)	(6)	—	—	(5,463)
Other Variable Procurements and Services	(1,957)	(192)	(81)	179	(2,051)
Contribution margin	3,157	2,583	533	(645)	5,628
Self-constructed Assets	83	167	20	—	270
Personnel expenses	(520)	(263)	(180)	16	(947)
Other fixed operating expenses	(1,103)	(428)	(419)	626	(1,324)
Gross operating profit	1,617	2,059	(46)	(3)	3,627
Depreciation and impairment losses	(1,029)	(630)	(49)	—	(1,708)
Profit from operations	588	1,429	(95)	(3)	1,919
Net financial profit/(loss)	(150)	(75)	86	—	(139)
Financial income	27	7	422	(420)	36
Financial expense	(173)	(82)	(338)	420	(173)
Net Exchange Differences	(4)	—	2	—	(2)
Net Profit/(Loss) of Companies Accounted for using the Equity Method	29	4	2	—	35
Gains/(Losses) from Other Investments	—	—	1,666	(1,666)	—
Gains/(losses) on disposal of assets	1	5	(3)	—	3
Profit/(loss) before tax	468	1,363	1,656	(1,669)	1,818
Income Tax Expense	(64)	(316)	(13)	1	(392)
Profit after tax for the period from continuing operations	404	1,047	1,643	(1,668)	1,426
Profit after tax for the period from discontinued operations	—	—	—	—	—
Profit for the year	404	1,047	1,643	(1,668)	1,426
Parent Company	396	1,046	1,643	(1,668)	1,417
Non-controlling interests	8	1	—	—	9

¹ Includes provisions for impairment of property, plant and equipment (153 million euros), goodwill (1 million euros), commercial insolvencies (80 million euros) and other financial assets (1 million euros) (see Notes 6, 10, 13.1, 19.1.1 and 29).

² Includes the reversal for impairment of intangible assets (6 million euros) (see Notes 8 and 29).

³ Includes Euros 1 million for net impairment losses from commercial insolvencies (see Notes 13.1 and 29).

	31 December 2018				
	Generation and Supply	Distribution	Structure	Consolidated Adjustments and Eliminations	Total
ASSETS					
Non-current assets	13,235	13,349	29,981	(30,564)	26,001
Property, plant and equipment	9,856	11,916	68	—	21,840
Investment property	—	56	6	—	62
Intangible assets	991	223	141	—	1,355
Goodwill ^(Note 10)	378	97	4	—	479
Investments Accounted for using the Equity Method	229	18	2	—	249
Non-current Financial Assets	1,093	718	29,623	(30,576)	858
Deferred Tax Assets	688	321	137	12	1,158
Current assets	5,083	1,106	2,910	(3,444)	5,655
Inventories	1,348	125	—	—	1,473
Trade and Other Receivables	2,622	671	1,941	(2,279)	2,955
Current Financial Assets	889	304	955	(1,165)	983
Cash and cash equivalents	224	6	14	—	244
Non-current Assets Held for Sale and Discontinued Operations	—	—	—	—	—
TOTAL ASSETS	18,318	14,455	32,891	(34,008)	31,656
EQUITY AND LIABILITIES					
Equity	7,194	3,472	17,388	(18,873)	9,181
Of the Parent	7,057	3,465	17,388	(18,873)	9,037
Of the non-controlling interests	137	7	—	—	144
Non-Current liabilities	6,079	8,522	12,111	(11,931)	14,781
Deferred income	44	4,562	—	(19)	4,587
Non-current provisions	1,995	954	323	53	3,325
Non-current financial debt	3,022	2,197	11,707	(11,951)	4,975
Other Non-current Liabilities	281	474	19	(17)	757
Deferred Tax Liabilities	737	335	62	3	1,137
Current liabilities	5,045	2,461	3,392	(3,204)	7,694
Current Interest-Bearing Loans and Borrowings	59	4	1,916	(933)	1,046
Current Provisions	444	65	62	—	571
Trade Payables and Other Current Liabilities	4,542	2,392	1,414	(2,271)	6,077
Liabilities Associated with Non-current Assets Classified as held for Sale and Discontinued Operations	—	—	—	—	—
TOTAL EQUITY AND LIABILITIES	18,318	14,455	32,891	(34,008)	31,656



34.2.2. Segment Information: Consolidated Income Statement for the year ended 31 December 2017 and Consolidated Statement of Financial Position for the year ended 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
Revenue (Note 25.1)	17,223	2,492	541	(700)	19,556
Other operating income (Note 25.2)	286	258	19	(62)	501
Procurements and services	(14,725)	(160)	146	170	(14,569)
Power Purchased	(4,933)	—	—	—	(4,933)
Fuel Consumption	(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 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 after tax for the period from continuing operations	273	1,048	1,661	(1,509)	1,473
Profit after tax for the period 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 Includes provisions for impairment of property, plant and equipment (1 million euros) and commercial insolvencies (160 million euros) (see Notes 6 and 13.1).

² Includes reversals for impairment of property, plant and equipment (14 million euros) and intangible assets (8 million euros) and impairment allowance for commercial insolvencies (22 million euros) (see Notes 6, 8 and 13.1).

	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 Interest-Bearing Loans and Borrowings	319	4	1,823	(1,168)	978
Current Provisions	309	60	55	1	425
Trade Payables and Other Current Liabilities	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



34.2.3. Segment Information: Consolidated Statements of Cash Flows corresponding to the annual periods ended 31 December 2018 and 2017

Millions of Euros

Statement of Cash Flows	2018			
	Generation and supply	Distribution	Structure, Services and Adjustments	Total ¹
Net cash flows from operating activities	942	1,491	(13)	2,420
Net Cash Flows used in Investing Activities	(940)	(847)	160	(1,627)
Net Cash Flows from (used in) Financing Activities	40	(644)	(344)	(948)

¹ See Note 33.

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.

34.2.4. Segment Information: Result of the Parent Company by geographical area corresponding to the annual periods ended 31 December 2018 and 2017

Millions of Euros

Country	2018	2017
Spain	1,397	1,551
Portugal	20	(65)
France	(9)	(28)
Germany	6	(3)
Morocco	2	7
Netherlands	1	1
Total	1,417	1,463

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.

In 2018, the amount of transactions carried out with other related parties of certain members of the Board of Directors, does not exceed Euros 22 million combined (Euros 14 million in 2017). These transactions correspond to the Company's normal business activities and were in all cases carried out under normal market conditions.

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 2018 and 2017 were as follows:

35.1.1. Expenses and income

Millions of Euros

	2018				Total
	Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	
Finance Expenses	94	—	—	—	94
Management or cooperation agreements	38	—	—	—	38
R&D transfers and licensing agreements	—	—	—	—	—
Leases	—	—	—	—	—
Services received	40	—	—	20	60
Purchase of finished goods and work in progress	156	—	—	—	156
Valuation adjustments for uncollectible or doubtful debts	—	—	—	—	—
Losses on derecognition or disposal of assets	—	—	—	—	—
Other expenses ¹	315	—	—	—	315
Total expenses	643	—	—	20	663
Finance Income	3	—	—	—	3
Management or cooperation agreements	1	—	—	—	1
R&D transfers and licensing agreements	—	—	—	—	—
Dividends received	—	—	—	—	—
Leases	1	—	—	—	1
Rendering of services	21	—	—	2	23
Sale of finished goods and work in progress	(17)	—	—	—	(17)
Gains on derecognition or disposal of assets	—	—	—	—	—
Other income	118	—	—	—	118
Total income	127	—	—	2	129

¹ Includes Euros 42 million recognised in Consolidated statement of other comprehensive income.

Millions of Euros

	2017				Total
	Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	
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 in Consolidated statement of other comprehensive income.

The transactions with related parties included in “Other Expenses” in 2018 and 2017 relate to:

Millions of Euros	2018	2017
Negative changes in the fair value of the derivative financial instruments for electricity and other energy products.	258	112
Power Purchased	57	69
Total	315	181

The transactions with related parties included in “Other Income” in 2018 and 2017 relate to:

Millions of Euros	2018	2017
Positive changes in the fair value of the derivative financial instruments for electricity and other energy products.	114	55
Power sales	4	6
Total	118	61





35.1.2. Other transactions

Millions of Euros

	Notes	2018				Total
		Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	
Purchase of property, plant and equipment, intangible assets or other assets		195	—	—	—	195
Financing agreements (lender)		—	1	—	—	—
Finance leases (lessor)		—	—	—	—	—
Repayment or cancellation of loans and leases (lessor)		—	—	—	—	—
Sale of property, plant and equipment, intangible assets or other assets		—	—	—	—	—
Financing Agreements (Borrower)		3,000	—	—	—	3,000
Finance leases (lessee)		—	—	—	—	—
Repayment or cancellation of loans and leases (lessee)		—	—	—	—	—
Guarantees provided		—	7	—	—	7
Guarantees received	12.2	120	—	—	—	120
Commitments Acquired	6.1 and 12.1	108	—	—	—	108
Commitments/Guarantees Cancelled		—	—	—	—	—
Dividends and other distributions	15.1.9 and 15.1.11	1,026	—	—	—	1,026
Other Transactions		—	—	—	—	—

Millions of Euros

	Notes	2017				Total
		Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	
Purchase of property, plant and equipment, intangible assets or other assets	5.5	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 or other assets		—	—	—	—	—
Financing Agreements (Borrower)		3,000	—	—	—	3,000
Finance leases (lessee)		—	—	—	—	—
Repayment or cancellation of loans and leases (lessee)		—	—	—	—	—
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 and 15.1.11	989	—	—	—	989
Other Transactions		—	—	—	—	—

At 31 December 2018 and 2017, the most significant balances under other transactions with related parties are as follows:

- Purchase of property, plant and equipment, intangible assets or other assets: in 2017 includes Euros 246 million corresponding to the acquisition of the systems and telecommunications activity (ICT) (see Note 5.5).
- Financing Agreements (Borrower): Outstanding balance on the intercompany loan arranged with ENEL Finance International, B.V. of Euros 3,000 million.
- Committed and irrevocable line of credit arranged with ENEL Finance International, N.V. for Euros 1,000 million (see Notes 18.2.1. and 20.4).
- Guarantees received: Guarantee received from ENEL, S.p.A. of USD 137 million (approximately Euros 120 million at 31 December 2018 and Euros 114 million at 31 December 2017) 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 57 million (see Note 6.1) and the commitment to acquire inventories of CO₂ emission allowances for Euros 101 million (Euros 53 million and Euros 65 million, respectively, at 31 December 2017) (see Notes 6.1 and 12.1, respectively).

→ Dividends and other distributions: Dividends paid to ENEL Iberia, S.L.U. in both years (see Notes 15.1.9 and 15.1.11).

In 2018 and 2017, 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. Balances at the end of the period

At 31 December 2018 and 2017, balances with related parties are as follows:

Millions of Euros						
31 December 2018						
	Notes	Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	Total
Non-current Financial Assets		63	1	—	—	64
Trade Receivables	13	239	—	—	1	240
Current Income Tax Assets	3n	159	—	—	—	159
Cash and Cash Equivalents		—	—	—	—	—
Assets		461	1	—	1	463
Non-current Interest-Bearing Loans and Borrowings		3,011	—	—	—	3,011
Other Non-current Liabilities		76	—	—	—	76
Current Interest-Bearing Loans and Borrowings		—	—	—	—	—
Suppliers and other Payables		1,155	—	—	1	1,156
Current Income Tax Liabilities	3n	153	—	—	—	153
Liabilities		4,395	—	—	1	4,396
						% of Consolidated Statement of Financial Position



Millions of Euros

	Notes	31 December 2017					% of Consolidated Statement of Financial Position
		Significant shareholders	Directors and senior management personnel	ENDESA Employees, Companies or Entities	Other related parties	Total	
Non-current Financial Assets		40	1	—	—	41	6
Trade Receivables	13	167	—	—	—	167	5
Current Income Tax Assets	3n	184	—	—	—	184	83
Cash and Cash Equivalents		—	—	—	—	—	—
Assets		391	1	—	—	392	1
Non-current Interest-Bearing Loans and Borrowings		3,000	—	—	—	3,000	68
Other Non-current Liabilities		22	—	—	—	22	3
Current Interest-Bearing Loans and Borrowings		—	—	—	—	—	—
Suppliers and other Payables		1,078	—	—	2	1,080	18
Current Income Tax Liabilities	3n	163	—	—	—	163	96
Liabilities		4,263	—	—	2	4,265	14

35.2. Associated Companies, Joint Ventures and Joint Operation Entities

The following are the details at 31 December 2018 and 2017 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 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Trade Receivables	13	1	5	—	1	—	—
Credits	19.1.1	63	67	—	—	4	4
Guarantees Issued		—	—	—	—	—	—

In 2018 and 2017 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	
	2018	2017	2018	2017	2018	2017
Income	3	2	1	1	—	—
Expenses	(14)	(13)	(24)	(23)	(42)	(38)

35.3. Directors and senior management personnel

35.3.1. 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 2018 and 2017, the monthly fixed salary for each Director was Euros 15.6 thousand, gross.
- The per diems for attendance at meetings of the Board of Directors, Executive Committee, Appointments and Remuneration Committee and Audit and Compliance Committee (CNR) amounted to Euros 1.5 thousand gross each in 2018 and 2017.
- 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 2018 and 2017 are as follows.

Thousands of Euros

	2018		2017	
	Salary	Fixed remuneration	Salary	Fixed remuneration
Borja Prado Eulate	1,132	188	1,132	188
Francesco Starace	—	—	—	—
José Bogas Gálvez	740	—	737	—
Alejandro Echevarría Busquet	—	188	—	188
Alberto de Paoli	—	—	—	—
Helena Revoredo Delvecchio	—	188	—	188
Miquel Roca Junyent	—	225	—	225
Enrico Viale	—	—	—	—
Ignacio Garralda Ruiz de Velasco	—	200	—	200
Francisco de Lacerda	—	188	—	188
Maria Patrizia Grieco ¹	—	188	—	128
Total	1,872	1,365	1,869	1,305

¹ Joined in April 2017.

Variable remuneration

The variable remuneration accrued in 2018 and 2017 by the Chairman and CEO, for performing their executive tasks, are those itemised below:

Thousands of Euros

	2018		2017	
	Current	Non-current	Current	Non-current
Borja Prado Eulate	835	904	783	1,023
José Bogas Gálvez	530	748	497	846
Total	1,365	1,652	1,280	1,869

Attendance fees

Per diems for attendance at each meeting of the Board of Directors and of its Committees in 2018 and 2017 are as follows:

Thousands of Euros				
	2018		2017	
	ENDESA, S.A.	Other companies	ENDESA, S.A.	Other companies
Borja Prado Eulate	19	—	18	—
Francesco Starace	—	—	—	—
José Bogas Gálvez	—	—	—	—
Alejandro Echevarría Busquet	48	—	37	—
Alberto de Paoli	—	—	—	—
Helena Revoredo Delvecchio	34	—	37	—
Miquel Roca Junyent	48	—	45	—
Enrico Viale	—	—	—	—
Ignacio Garralda Ruiz de Velasco	50	—	46	—
Francisco de Lacerda	50	—	46	—
Helena Maria Patrizia Grieco ¹	19	—	13	—
Total	268	—	242	—

¹ 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 other social benefits.

In 2018, this totalled Euros 84 thousand (Euros 86 thousand in 2017).

Advances and loans

At 31 December 2018 and 2017, 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

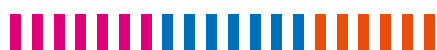
During 2018, the contribution to funds and pension plans of Executive Directors totalled Euros 626 thousand (Euros 600 thousand in 2017).

Pension funds and schemes: obligations assumed

At 31 December 2018, Executive Directors hold accumulated fund and pension plan rights for the amount of Euros 14,042 thousand (Euros 12,815 thousand in 2017).

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 2018, the premium totalled Euros 267 thousand (Euros 249 thousand in 2017).

35.3.2. Remuneration of senior executives

Guarantees provided by the Company to Executive Directors

At 31 December 2018, as regards remuneration, the Company had guarantees on behalf of the Chief Executive Officer amounting to Euros 6,722 thousand to cover early retirement entitlements (Euros 6,890 thousand at 31 December 2017).

Identification of members of senior management who are not Executive Directors

Name	Senior executives in 2018
	Position ¹
Alberto Fernández Torres	General Manager - Communication
Alvaro Luis Quiralte Abelló ²	General Manager - Energy Management
Juan M ^a Moreno Mellado ³	General Manager - Energy Management
Andrea Lo Faso	General Manager of People and Organisation
Enrique de las Morenas Moneo ⁴	General Manager - Renewable Energies
Rafael González Sánchez ⁵	General Manager - Renewable Energies
Francesco Amadei ⁵	General Manager - Infrastructure and Networks
Gianluca Caccialupi ⁷	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	General Manager - ENDESA X
Juan M ^a Moreno Mellado ⁸	General Manager - Nuclear Power
Gonzalo Carbó de Haya ⁹	General Manager - Nuclear Power
Luca Minzolini	General Manager - Audit
Manuel Fernando Marín Guzmán	General Manager - ICT Digital Solutions
Manuel Morán Casero ¹⁰	General Manager - Thermal Generation
Paolo Bondi ¹¹	General Manager - Thermal Generation
María Malaxechevarría Grande	General Manager - Sustainability
Pablo Azcoitia Lorente	General Manager - Purchasing
Paolo Bondi ¹²	General Manager - Administration, Finance and Control
Luca Passa ¹³	General Manager - Administration, Finance and Control

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

² Left on 31 October 2018.

³ Joined on 1 November 2018.

⁴ Left on 31 August 2018.

⁵ Joined on 1 September 2018.

⁶ Left on 31 March 2018.

⁷ Joined on 1 May 2018.

⁸ Left on 31 October 2018.

⁹ Joined on 1 November 2018.

¹⁰ Left on 30 April 2018.

¹¹ Joined on 1 May 2018.

¹² Left on 30 April 2018.

¹³ Joined on 1 May 2018.

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 management in CNMV Circular 5/2013, of 12 June 2013.

² Joined on 19 June 2017.

Remuneration of senior management

Details of the remuneration of senior management members who are not also an Executive Director in 2018 and 2017 is as follows:

	Thousands of Euros			
	Remuneration			
	At the Company		For membership of boards of directors of ENDESA companies of the ENDESA Group	
	2018	2017	2018	2017
Fixed remuneration	5,655	5,636	—	—
Variable remuneration	6,165	6,268	—	—
Per Diems for attendance	—	—	—	—
Bylaw-stipulated Emoluments	—	—	—	—
Options on shares and other financial instruments	—	—	—	—
Other	4,603	540	—	—
Total	16,423	12,444	—	—





Thousands of Euros

	Other Benefits			
	At the Company		For membership of boards of directors of ENDESA companies of the ENDESA Group	
	2018	2017	2018	2017
Advances	323	576	—	—
Loans granted	154	153	—	—
Pension funds and schemes: contributions	908	1,082	—	—
Pension funds and schemes: obligations assumed	16,974	19,630	—	—
Life and accident insurance premiums	207	230	—	—

Guarantees provided by the Company to senior management personnel

At 31 December 2018 and 2017, in terms of remuneration, the Company had not issued any guarantees to senior managers who are not also 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 managers of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee (ARC) 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 2018 and 2017, 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 2018

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.	0,00406543	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
Ignacio Garralda	00811720580	ENEL, S.p.A.	0,00027540	—
Maria Patrizia Grieco	00811720580	ENEL, S.p.A.	—	Chairman

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





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 2018, 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 2018, 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 2018, the Proprietary Directors did not participate in the related items on the agenda of the Board of Directors meeting.
- Helena Revoredo Delvecchio is Chairwoman of Prosegur Compañías 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 2018, 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 2018, the Board of Directors of ENDESA, S.A. was composed of 11 directors, 2 of which are women. At 31 December 2017, there were 11 Directors, 2 of which were women.

In 2018 and 2017 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 insures both the Company's directors and employees with management responsibilities.

In 2018, this premium totalled Euros 327 thousand (Euros 80 thousand in 2017).

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

In 2010, ENDESA set up a long-term employee benefit system known as the "Loyalty Scheme", aimed at strengthening the commitment of senior staff to achieving the Group's strategic targets. This scheme comprises successive three-year programmes commencing each year as from 1 January 2010. Since 2014, the schemes have included deferment of payment and the need for the Director to be currently in service at the date of settlement; these payments are made at two different times: 30% of the incentive the year after finalisation of the scheme, and the remaining 70% two years thereafter.

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 2016-2018. The Company also submitted the long-term 2017-2019 remuneration scheme for approval to the General Shareholders' Meeting, held on 26 April 2017, and the long-term 2018-2020 remuneration scheme to the General Shareholders' Meeting held on 23 April 2018.

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

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

- a) The, of "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: impact of all dividends paid in the period and reinvested in shares at the date each was subject to a discount.
- b) The “Return On Average Capital Employed” (ROACE)¹ objective, defined as ENDESA’s accumulated ROACE in the accrual period, represented by the relationship between Ordinary EBIT² and Average Net Capital Invested accumulated during the period (Average NCI)³.
- c) The long-term remuneration scheme 2018-2020 included a specific CO₂ emission reduction target. This indicator measures ENDESA carbon dioxide (CO₂) emissions

in Spain and Portugal, understood as the existing ratio between absolute carbon dioxide (CO₂) emissions due to ENDESA electricity generation and ENDESA net total production for that year.

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 (ARC) 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 2018 totalled Euros 7 million (Euros 8 million in 2017).

¹ Return on average capital employed (ROACE) (%) = Ordinary Profit from Operations (Ordinary EBIT) / average Net Capital Invested (average NCI).

² Ordinary Profit from Operations (Ordinary EBIT) (Euros Million) = Profit from Operations (EBIT) adjusted of extraordinary effects not budgeted.

³ Average Net Capital Invested (average NCI) (Euros Million) = ((Equity + Net Financial Debt – Cash and cash equivalents)_n + (Equity + Net Financial Debt – Cash and other cash equivalents)_{n-1}) / 2.



36. Guarantees to third parties, other contingent assets and liabilities and other commitments

36.1. Direct and indirect guarantees

As of December 31, 2018 and 2017, there are guarantees provided to third parties for the following concepts and amounts:

Millions of Euros			
	Notes	2018	2017
Fixed Assets Collateral for the Financing Received	6.1, 15.1.12 and 18.2.3	103	159
Short and Long Term Gas Contracts		87	67
Lease of the Metanero Ship ¹		170	—
Total		360	226

¹ The entry into force is scheduled for the second half of 2019.

At 31 December 2018 and 2017, the breakdown of guarantees granted to ENDESA's associates, 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 2018 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 2018 and 2017 by the auditors of the annual financial statements of the various ENDESA companies are as follows:

	Thousands of Euros	
	2018	
	Ernst&Young	Other auditors of subsidiaries
	2017	
	Ernst&Young	Other auditors of subsidiaries
Audit of the Financial Statements	2,156	46
Audits other than of the financial statements and other audit-related services	1,748	—
Other non-audit services	—	20
Total	3,904	66

The figures reported in the table above include all of the fees accrued for the services rendered during the years ended 2018 and 2017, irrespective of when they were actually billed.



38. Personnel

ENDESA's final and average headcounts, by segment, professional category and gender, are as follows:

Number of Employees

	Final Headcount					
	31 December 2018			31 December 2017		
	Male	Female	Total ¹	Male	Female	Total
Executives	234	50	284	234	46	280
Graduates	2,165	1,043	3,208	2,117	990	3,107
Middle management and manual workers	5,085	1,186	6,271	5,107	1,212	6,319
Total employees	7,484	2,279	9,763	7,458	2,248	9,706

¹ Includes the final headcount at Empresa de Alumbrado Eléctrico de Ceuta, S.A. (65 employees) (see Note. 5.4).

Number of Employees

	Final Headcount					
	31 December 2018			31 December 2017		
	Male	Female	Total ¹	Male	Female	Total
Generation and supply	4,082	1,073	5,155	4,083	1,024	5,107
Distribution	2,535	443	2,978	2,491	429	2,920
Structure and others ²	867	763	1,630	884	795	1,679
Total employees	7,484	2,279	9,763	7,458	2,248	9,706

¹ Includes the final headcount at Empresa de Alumbrado Eléctrico de Ceuta, S.A. (65 employees) (see Note. 5.4).

² Structure and services.

Number of Employees

	Average Headcount					
	2018			2017		
	Male	Female	Total ¹	Male	Female	Total
Executives	235	48	283	248	47	295
Graduates	2,128	1,019	3,147	2,131	979	3,110
Middle management and manual workers	5,082	1,184	6,266	5,222	1,229	6,451
Total employees	7,445	2,251	9,696	7,601	2,255	9,856

¹ Includes the average headcount at Empresa de Alumbrado Eléctrico de Ceuta, S.A. (27 employees) since the date of the takeover (see Note 5.4).

Number of Employees

	Average Headcount					
	2018			2017		
	Male	Female	Total ¹	Male	Female	Total
Generation and supply	4,079	1,056	5,135	4,102	998	5,100
Distribution	2,502	433	2,935	2,582	441	3,023
Structure and others ²	864	762	1,626	917	816	1,733
Total	7,445	2,251	9,696	7,601	2,255	9,856

¹ Includes the average headcount at Empresa de Alumbrado Eléctrico de Ceuta, S.A. (27 employees) since the date of the takeover (see Note 5.4).

² Structure and services.

The average number of employees in joint operation entities in 2018 and 2017 was 840 and 866, respectively.

The average persons employed in 2018 and 2017 with an incapacity greater than or equal to 33%, per category, is the following.

Number of Employees

	Average headcount with disabilities ¹					
	2018			2017		
	Male	Female	Total	Male	Female	Total
Executives	—	—	—	—	—	—
Graduates	14	4	18	16	4	20
Middle management and manual workers	43	16	59	43	17	60
Total employees	57	20	77	59	21	80

¹ 33% or higher.

Number of Employees

	Average headcount with disabilities ²					
	2018			2017		
	Male	Female	Total	Male	Female	Total
Generation and supply	21	12	33	20	12	32
Distribution	25	1	26	26	1	27
Structure and other ¹	11	7	18	13	8	21
Total	57	20	77	59	21	80

¹ Structure and services.

² 33% or higher.





39. Events after the reporting period

On 28 January 2019, ENDESA Energía Renovable, S.L.U. was formed, 100% owned by ENDESA Energía, S.A.U., a company dedicated to the supply of all types of energy products, in particular, electric energy and natural gas, specifically from renewable sources.

On 5 February 2019, the sale of Eólica del Noroeste, S.L. was formalized, in which ENDESA, through ENEL Green Power, S.L.U. (EGPE) held a 51% interest, as well as its corresponding creditor position as a result of the joint loan of partners that said company had.

On 6 February 2019, the associate company Erecosalz, S.L. (in Liquidation), was liquidated, in which ENDESA, through ENEL Green Power, S.L.U. (EGPE) maintained a 33% stake.

These transactions had no impact on the consolidated income statement.

After an important number of meetings of the "Negotiating Committee of the V Collective Agreement of ENDESA", which began in October 2017 and that have been developed throughout 2018, given the impossibility of reaching an agreement, the Company's Management informed the workers and its representatives that, effective January 1, 2019, the validity of the "IV Framework Collective Agreement of ENDESA" as well as the so-called "Framework

Agreement of Guarantees" and "Agreement on Voluntary Measures of Suspension or Termination of Labor Contracts for the 2013-2018 Period", should be considered finished, applying since that date the general labor regulations, as well as the jurisprudential criteria established in the matter.

Notwithstanding the fact that in February 2019 negotiations have been resumed in the aforementioned "Negotiating Committee of the V Collective Agreement of ENDESA", the different interpretation of ENDESA and the union representation of the workers on the effects of the termination of the application of the "IV Framework Collective Agreement of ENDESA", particularly regarding the social benefits of the passive personnel, has determined the presentation by the unions with representation in the company, of a collective dispute demand.

At the date of preparation of these Consolidated Financial Statements, the resolution of said collective dispute in the first instance by the Social Division of the National Court is pending.

Except for what is mentioned in the previous paragraphs, no other significant events took place between 31 December 2018 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 31/12/2018			% ownership at 31/12/2017			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 ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	CHP PLANTS	UNAUDITED
ARAGONESA DE ACTIVIDADES ENERGÉTICAS, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	TERUEL (SPAIN)	DISTRIBUTION AND SALE OF ELECTRICITY	UNAUDITED
ARANORT DESARROLLOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ASOCIACIÓN NUCLEAR ASCÓ-VANDELLOS 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	100.00	100.00	FC	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
BOSA DEL EBRO, S.L.	51.00	51.00	FC	—	—	—	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
CASTIBLANCO SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
DEHESA DE LOS GUADALUPES SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
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	100.00	100.00	FC	GERONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
ELÉCTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	TARRAGONA (SPAIN)	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
EMPRESA DE ALUMBRADO ELÉCTRICO DE CEUTA, S.A.	96.29	96.29	FC	—	—	—	CEUTA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	DELOITTE
EMPRESA DE ALUMBRADO ELÉCTRICO DE CEUTA COMERCIALIZACIÓN DE REFERENCIA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	96.29	FC	—	—	—	CEUTA (SPAIN)	ELECTRICITY SUPPLY	DELOITTE
EMPRESA DE ALUMBRADO ELÉCTRICO DE CEUTA DISTRIBUCIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	96.26	FC	—	—	—	CEUTA (SPAIN)	ELECTRICITY DISTRIBUTION	DELOITTE
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)	SUPPLY OF ENERGY PRODUCTS	ERNST & YOUNG





Company (in alphabetical order)	% ownership at 31/12/2018			% ownership at 31/12/2017			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
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)	SUPPLY 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	SEVILLA (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
ENDESA GENERACIÓN NUCLEAR, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLA (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	LISBOA (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	SEVILLA (SPAIN)	ELECTRICITY PRODUCTION AND RETAILING	ERNST & YOUNG
ENDESA INGENIERÍA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLA (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	MADRID (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	LONDRES (REINO UNIDO)	TRADING OPERATIONS	ERNST & YOUNG
ENDESA RED, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	DISTRIBUTION ACTIVITIES	ERNST & YOUNG
ENDESA X, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	SERVICES ASSOCIATED WITH THE MARKETING OF ENERGY PRODUCTS	UNAUDITED
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) (UNDER LIQUIDATION)	100.00	100.00	FC	100.00	100.00	FC	TARRAGONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	UNAUDITED
ENERGÍA EÓLICA ALTO DEL LLANO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	VALENCIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
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 CIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	UNAUDITED

Company (in alphabetical order)	% ownership at 31/12/2018			% ownership at 31/12/2017			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	51.00	51.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICA DEL PRINCIPADO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM	ASTURIAS (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
EÓLICAS 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
EÓLICAS 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
EÓLICOS DE TIRAJANA, S.L.	60.00	60.00	FC	60.00	60.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	70.00	70.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	73.60	73.60	FC	TERUEL (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SANTO DOMINGO DE LUNA, S.A.	51.00	51.00	FC	51.00	51.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	65.00	65.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
FURATENA SOLAR 1, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
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	SEVILLA (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	ERNST & YOUNG
HIDROMONDEGO - HIDROELÉCTRICA DO MONDEGO, LDA	100.00	100.00	FC	100.00	100.00	FC	LISBOA (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	ÁMSTERDAM (HOLLAND)	INTERNATIONAL FINANCIAL TRANSACTIONS	ERNST & YOUNG
LA PEREDA CO2, A.I.E.	33.33	33.33	PC	33.33	33.33	PC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
NAVALVILLAR SOLAR, S.L.U. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
PARAVENTO, S.L.	90.00	90.00	FC	90.00	90.00	FC	LUGO (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO 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 EÓLICO BELMONTE, S.A.	50.16	50.16	FC	50.16	50.16	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO 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 EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	75.00	75.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	82.00	82.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO 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





Company (in alphabetical order)	% ownership at 31/12/2018			% ownership at 31/12/2017			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
PARQUE EÓLICO FARLÁN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	90.00	90.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	75.50	75.50	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO MUNIESA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO 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 EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	58.00	58.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUES EÓLICOS GESTINVER, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUES EÓLICOS GESTINVER GESTIÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PEREDA POWER, S.L.	70.00	70.00	FC	70.00	70.00	FC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	56.12	56.12	FC	SEVILLA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SAN FRANCISCO DE BORJA, S.A.	66.67	66.67	FC	—	—	—	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
SEGUIDORES SOLARES PLANTA 2, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	ERNST & YOUNG
SISTEMAS ENERGÉTICOS ALCOHÚJATE, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	TOLEDO (SPAIN)	WIND FARM PROJECTS	UNAUDITED
SISTEMAS ENERGÉTICOS CAMPOLIVA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
SISTEMAS ENERGÉTICOS MANÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	96.00	96.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SISTEMAS ENERGÉTICOS SIERRA DEL CARAZO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	VIZCAYA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	64.73	64.73	FC	SEVILLA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	60.00	60.00	FC	SEVILLA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SUMINISTRO DE LUZY FUERZA, S.L.	60.00	60.00	FC	60.00	60.00	FC	GERONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
TAUSTE ENERGÍA DISTRIBUIDA, S.L.	51.00	51.00	FC	—	—	—	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
TRANSPORTES Y DISTRIBUCIONES ELÉCTRICAS, S.A.	73.33	73.33	FC	73.33	73.33	FC	GERONA (SPAIN)	ELECTRICITY TRANSMISSION	UNAUDITED
UNIÓN ELÉCTRICA DE CANARIAS GENERACIÓN, 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
VALDECABALLERO SOLAR, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	—	—	—	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	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 31/12/2018			% ownership at 31/12/2017			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 GÜEJAR-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	33.50	33.50	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY	ERNST & YOUNG
COMPAÑÍA 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	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 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. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	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	50.00	50.00	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY	ERNST & YOUNG
ERECOSALZ, S.L.	33.00	33.00	EM	33.00	33.00	EM	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
FRONT MARÍTIM DEL BESÓS S.L. (1)	61.37	61.37	EM	-	-	-	BARCELONA (SPAIN)	REAL ESTATE ASSET MANAGEMENT AND DEVELOPMENT	UNAUDITED





Company (in alphabetical order)	% ownership at 31/12/2018			% ownership at 31/12/2017			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
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
NUCLENOR, 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 - ENERGIA 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

IG: Full consolidation; EM: Equity method.

¹ See Note 2.5.2.

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, 2018, as provided herein, were drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 25, 2019** 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 Garraalda 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, 25 February 2019



Consolidated Management Report

for the year ended 31 December 2018

ENDESA drew up this Consolidated Management Report for the year ended 31 December 2018 in accordance with the “Guidelines for the preparation of management reports of listed companies” issued by the Group of Experts appointed by the Spanish National Securities Market Commission (CNMV).

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



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 the 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 products and services 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 and other products and services.

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 2018, 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	Juan María Moreno Mellado
General Manager - People and Organisation	Andrea Lo Faso
General Manager - Renewable Energies	Rafael González Sánchez
General Manager - Infrastructure and Networks	Gianluca Caccialupi
General Manager - Supply	Javier Uriarte Monereo
General Manager - Institutional Relations and Regulation	José Casas Marín
General Manager - Media	José Luis Puche Castillejo
General Manager - ENDESA X	Josep Trabado Farré
General Manager - Nuclear Power	Gonzalo Carbó de Haya
General Manager - Audit	Luca Minzolini
General Manager - ICT Digital Solutions	Manuel Fernando Marín Guzmán
General Manager - Thermal Generation	Paolo Bondi
General Manager - Sustainability	Maria Malaxechevarría Grande
General Manager - Purchasing	Pablo Azcoitia Lorente
General Manager - Administration, Finance and Control	Luca Passa
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 an integral part in this Consolidated Management Report.

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 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 of electricity:** 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 de-regulated activity, although there is specific remuneration for generation from 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 from renewable energies in Non-mainland Territories (TNP) an incentive is established for investment when generation costs are reduced.

→ **Supply of electricity, gas and other products and services:** This activity consists of supplying energy on the market and the sale of other products and services



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 key figures at 31 December 2018.

Market in Portugal

- **Generation of electricity:** 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%), and ENEL Green Power España, S.L.U. (EGPE) (100%).

At 31 December 2018, ENDESA's installed capacity at ordinary regime facilities was 20,903 MW, of which, 16,369 MW corresponded to the mainland electricity system and the remaining 4,534 MW to Non-mainland Territories (TNP) (Balearic and Canary Islands and the cities of Ceuta and Melilla). Net installed capacity for renewables at that date stood at 1,815 MW (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

In Spain and Portugal, ENDESA had total net output in 2018 of 74,193 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 activity, and ENDESA Ingeniería, S.L.U. (100%).

At 31 December 2018, 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) and the self-governing city of Ceuta, covering a total area of 195,487 km² with a total population of nearly 21 million.

The number of clients with access contract to ENDESA's distribution networks exceeded 12 million on that date, and in 2018 its network supplied a total power output of 117,029 GWh, measured at busbar cost (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

Energy supply: ENDESA Energía, S.A.U. and ENDESA X, S.A.U.

ENDESA Energía, S.A.U. 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 to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market and other products and services around the development of efficient energy infrastructures and maintenance services.

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, France, the Netherlands and Portugal.

ENDESA X, S.A.U. was created on 26 June 2018 to develop and market new services adapted to trends in the energy

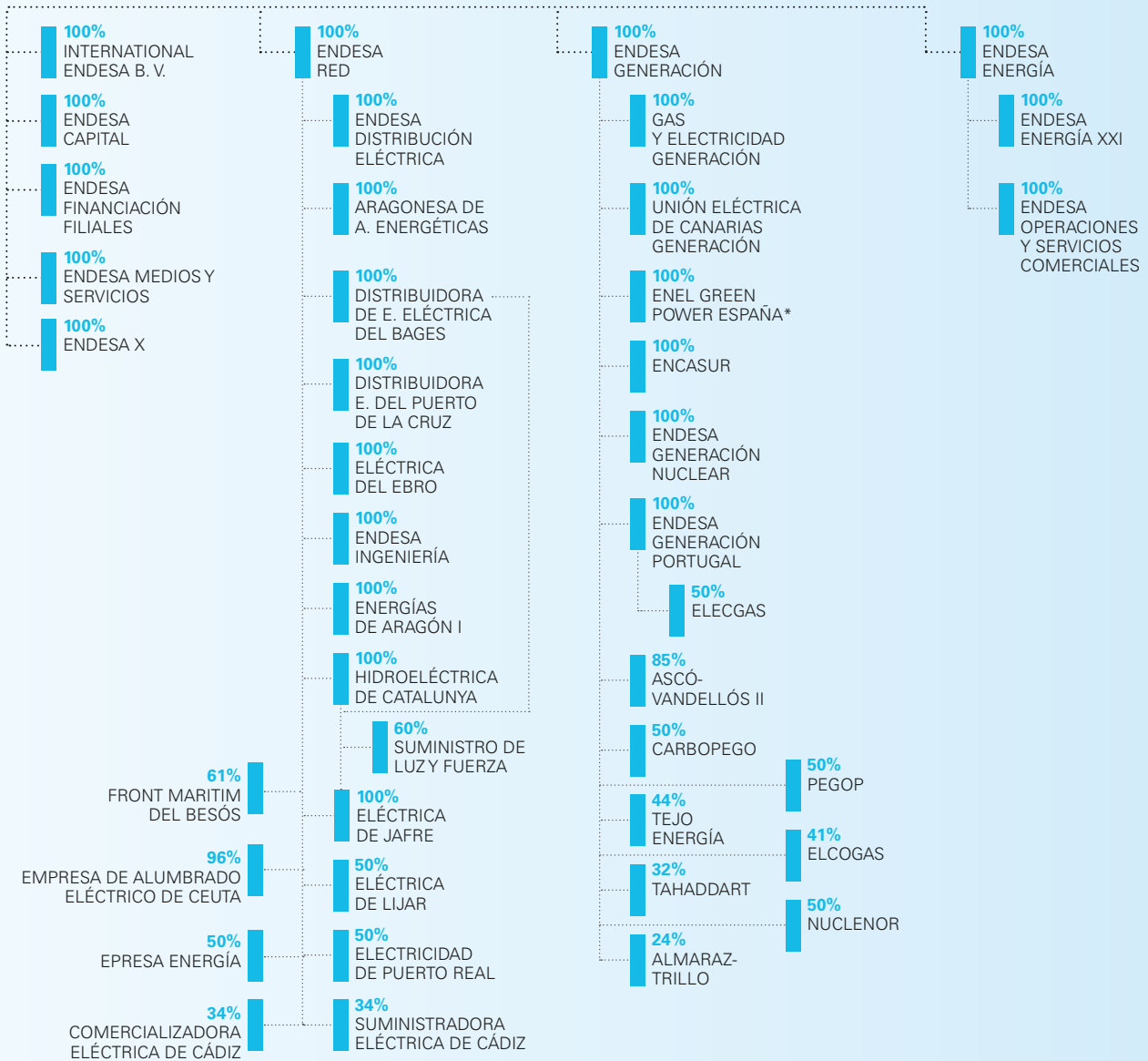
market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities in electric mobility, demand management, distributed generation, energy storage and the enlargement of the range of services provided to domestic, industrial and institutional customers.

ENDESA supplied 89,639 GWh in 2018, and, as of 31 December 2018, the client portfolio in the electricity market consisted of 10.8 million of supply points. It supplied total gas of 86,729 GWh in the year, and at 31 December 2018, 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 2018 lists ENDESA's subsidiaries and joint operation entities.

Appendix II to the Consolidated Financial Statements for the year ended 31 December 2018 lists ENDESA's associates and joint ventures.

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2018:



* See next chart.

100%
ENEL GREEN
POWER ESPAÑA

51% AGUILÓN 20	100% ENERGÍAS DE ARAGÓN II	60% EÓLICOS DE TIRAJANA	30% PARC EOLIC LOS ALIGARS	100% PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE	60% SOCIEDAD EÓLICA LOS LANCES
100% ALMUSSAFES SERVICIOS ENERGÉTICOS	67% ENERGÍAS DE GRAUS	33% ERECOSALZ	100% PARQUE EÓLICO A CAPELADA	100% PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES II	36% SOTAVENTO GALICIA
100% ARANORT DESARROLLOS	77% ENERGÍAS ESPECIALES DE CAREÓN	70% EXPLOTACIONES EÓLICAS DE ESCUCHA	50% PARQUE EÓLICO BELMONTE	30% PRODUCTORAS DE ENERGÍAS	51% TAUSTE ENERGÍA DISTRIBUIDA
100% BAYLIO SOLAR	80% ENERGÍAS ESPECIALES DE PEÑA ARMADA	74% EXPLOTACIONES EÓLICAS EL PUERTO	80% PARQUE EÓLICO CARRETERA DE ARINAGA	100% PROMOCIONES ENERGÉTICAS DEL BIERZO	45% TERMOTEC ENERGÍA (en liquidación)
40% BOIRO ENERGÍA	100% ENERGÍAS ESPECIALES DEL ALTO ULLA	51% EXPLOTACIONES EÓLICAS SANTO DOMINGO DE LUNA	75% PARQUE EÓLICO DE BARBANZA	33% PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES	33% TOLEDO PV
51% BOSA DEL EBRO	50% ENERGÍAS ESPECIALES DEL BIERZO	65% EXPLOTACIONES EÓLICAS SASO PLANO	82% PARQUE EÓLICO DE SAN ANDRÉS	50% SALTO DE SAN RAFAEL	40% UFEFYS (en liquidación)
100% CASTIBLANCO SOLAR	100% EÓLICA DEL CIERZO	90% EXPLOTACIONES EÓLICAS SIERRA COSTERA	66% PARQUE EÓLICO DE SANTA LUCÍA	67% SAN FRANCISCO DE BORJA	100% VALDECABALLERO SOLAR
33% CENTRAL HIDRÁULICA GÚJAR-SIERRA	51% EÓLICA DEL NOROESTE	90% EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN	100% PARQUE EÓLICO FARLÁN	45% SANTO ROSTRO COGENERACIÓN (en liquidación)	67% VIRULEIROS
20% COGENERACIÓN EL SALTO (en liquidación)	100% EÓLICA DEL PRINCIPADO	100% FURATENA SOLAR 1	90% PARQUE EÓLICO FINCA DE MOGÁN	100% SEGUIDORES SOLARES PLANTA 2	40% YEDESA COGENERACIÓN (en liquidación)
38% COMPAÑÍA EÓLICA TIERRAS ALTAS	51% EÓLICA VALLE DEL EBRO	30% HIDROELÉCTRICA DE OUROL	76% PARQUE EÓLICO MONTES DE LAS NAVAS	28% SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE	
25% COMPAÑÍA EÓLICA DE ZARAGOZA	80% EÓLICAS DE AGAETE	51% HISPANO GENERACIÓN DE ENERGÍA SOLAR	100% PARQUE EÓLICO MUINIESA	100% SISTEMAS ENERGÉTICOS ALCOHUJATE	
100% DEHESA DE LOS GUADALUPES SOLAR	55% EÓLICAS DE FUENCALIENTE	37% MINICENTRALES DEL CANAL IMPERIAL-GALLUR	52% PARQUE EÓLICO PUNTA DE TENO	100% SISTEMAS ENERGÉTICOS CAMPOLIVA	
40% DEPURACIÓN DESTILACIÓN RECICLAJE	40% EÓLICAS DE FUERTEVENTURA	100% NAVALVILLAR SOLAR	58% PARQUE EÓLICO SIERRA DEL MADERO	96% SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA	
65% ENEL GREEN POWER GRANADILLA	50% EÓLICAS DE LA PATAGONIA	33% OXAGESA (en liquidación)	100% PARQUES EÓLICOS GESTINVER	100% SISTEMAS ENERGÉTICOS SIERRA DEL CARAZO	
100% ENERGÍA EÓLICA ALTO DEL LLANO	40% EÓLICAS DE LANZAROTE	90% PARAVENTO	100% PARQUES EÓLICOS GESTINVER GESTIÓN	65% SOCIEDAD EÓLICA DE ANDALUCÍA	
55% ENERGÍAS ALTERNATIVAS DEL SUR	50% EÓLICAS DE TENERIFE	30% PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL	56% PLANTA EÓLICA EUROPEA	50% SOCIEDAD EÓLICA EL PUNTAL	





2. Business trends and results in 2018

2.1. Consolidated results

ENDESA reported net income of Euros 1,417 million in 2018 (-3.1%).

ENDESA reported net income of Euros 1,417 million in 2018, down 3.1% from the Euros 1,463 million reported in 2017.

Net ordinary income in 2018 was Euros 1,511 million, up 4.1% (from Euros 1,452 million).

The table below shows the breakdown of net income and net ordinary income in 2018 between ENDESA's businesses and the percentage change from the year before (see Section 2.4 Segment Information in this Consolidated Management Report):

Millions of Euros								
	Net income/(loss)				Net ordinary income ²			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	396	263	50.6	27.9	490	263	86.3	32.4
Distribution	1,046	1,048	(0.2)	73.8	1,046	1,037	0.9	69.2
Structure and other ¹	(25)	152	(116.4)	(1.7)	(25)	152	(116.4)	(1.6)
Total	1,417	1,463	(3.1)	100.0	1,511	1,452	4.1	100.0

¹ Structure, services and adjustments.

² Net ordinary income = Profit/(loss) of the Parent - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

2.2. Changes in accounting policies

Appendix II in this Consolidated Management Report includes the effect on the Consolidated Statement of Financial Position at 1 January 2018 from the changes as a result of applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

- IFRS 9 Financial Instruments became effective in 2018. As a result, ENDESA has applied an impairment model based on the expected loss method (see Note 2.1 to the Consolidated Financial Statements for the year ended 31 December 2018).
- In applying IFRS 15 Revenue from Contracts with Customers for the first time, ENDESA capitalised under Non-Current Assets in the Consolidated Statement of Financial Position the incremental costs of obtaining these contracts with customers which, at 1 January 2018, had been recognised in the Consolidated Income Statement.

This asset is depreciated on a systematic basis in accordance with expected average life of the contracts with customers related to these costs, which at that date ranged from 1.4 years and 9 years (see Note 2.1 to the Consolidated Financial Statements for the year ended 31 December 2018).

With regard to the transition alternative adopted in the first-time application of both standards, ENDESA has opted for the full retrospective method of adoption with cumulative effect from 1 January 2018.

Appendix III to this Consolidated Management Report includes a breakdown of the impact of applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Consolidated Financial Statements for the year ended 31 December 2018.

2.3. Analysis of results

The table below presents the detail of the main figures in ENDESA's Consolidated Income Statement for 2018 and the change from last year:

Main figures of the Consolidated Income Statement				
	2018	2017	Difference	% Var
Income	20,195	20,057	138	0.7
Contribution margin	5,628	5,488	140	2.6
EBITDA ¹	3,627	3,542	85	2.4
EBIT ²	1,919	2,031	(112)	(5.5)
Net financial profit/(loss) ³	(139)	(123)	(16)	13.0
Profit/(loss) before tax	1,818	1,900	(82)	(4.3)
Net income/(loss)	1,417	1,463	(46)	(3.1)
Net ordinary income ⁴	1,511	1,452	59	4.1

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 Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.

⁴ Net ordinary income = Profit/(loss) of the Parent - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).



In 2018, EBITDA was Euros 3,627 million (+2.4%). To analyse its performance in 2018, the following factors must be taken into account:

- The decrease in power purchases (-3.0%) and fuel consumption (-1.1%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).
- The lower cost recognised for the Social Bonus in 2017 for Euros 222 million, under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various related rulings.

EBIT fell 5.5% in 2018 to Euros 1,919 million, mostly as a result of impairment losses in Thermal Power Plant of Alcudia (Balearic Islands) for Euros 158 million (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

2.3.1. Income

In 2018, income totalled Euros 20,195 million, Euros 138 million (+0.7%) higher than in 2017.

The table below presents the detail of income in the 2018 Consolidated Income Statement and the change from last year:

Millions of Euros				
	Income			
	2018 ¹	2017	Difference	% Var
Revenue from sales	19,555	19,556	(1)	(0.0)
Other operating income	640	501	139	27.7
Total	20,195	20,057	138	0.7

¹ Includes revenue from Parques Eólicos Gestiver Gestión, S.L.U. (Euros 19 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 17 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Market situation

In 2018, electricity demand trends were as follows:

- Total mainland electricity demand rose by 0.4% in the year (+0.3% adjusted for working days and temperature).
- The electricity demand in Non-mainland Territories (TNP) closed out 2018 with a 0.6% increase in the Balearic Islands and a 1.0% decrease in the Canary Islands compared with 2017 (+0.2% and -1.0% respectively, adjusted for working days and temperature).

The year 2018 featured higher prices, with the cumulative arithmetic price on the wholesale electricity market standing at Euros 57.3/MWh (+9.7%) mainly due to the increase in carbon dioxide (CO₂) emission rights and changes in raw materials prices.

The contribution of renewable energies to total mainland production was 39.0% in the year 2018 (38.7% in 2017).

In this environment:

- ENDESA's mainland ordinary regime electricity output totalled 61,338 GWh in 2018, 6.4% lower than in 2017, as follows: combined cycle plants (5,293 GWh, -37.1%), coal-fired plants (19,924 GWh, -10.7%), nuclear power plants (24,067 GWh, -9.0%), renewable and cogeneration plants (3,715 GWh, +11.4%) and hydroelectric power plants (8,339 GWh, +66.6%).
- Non-mainland Territories (TNP) generation was 12,855 GWh in 2018 (-2.2%).
- Nuclear and renewable technologies, including hydroelectric, accounted for 48.8% of ENDESA's generation mix in 2018, compared with 80.1% for the rest of the sector (44.4% and 74.6%, respectively, in 2017).

At 31 December 2018, ENDESA held the following electricity market shares:

- 22.5% in mainland electricity generation.
- 43.6% in electricity distribution.
- 33.4% in electricity supply.

Conventional gas demand rose by 4.5% in 2018, and at 31 December 2018 ENDESA had secured a market share of 16.3% in gas sales to customers in the deregulated market.

Sales

The table below presents the detail of sales in the 2018 Consolidated Income Statement and the change from last year:

Millions of Euros				
	Sales			
	2018 ¹	2017	Difference	% Var
Electricity sales	14,137	14,451	(314)	(2.2)
Sales to the deregulated market	9,236	9,533	(297)	(3.1)
Sales to the Spanish deregulated market	8,227	8,457	(230)	(2.7)
Sales to customers in deregulated markets outside Spain	1,009	1,076	(67)	(6.2)
Sales at regulated prices	2,339	2,460	(121)	(4.9)
Wholesale market sales	1,130	1,137	(7)	(0.6)
Compensations for Non-mainland Territories (TNP)	1,318	1,215	103	8.5
Remuneration to the Investment in Renewable Energy	96	95	1	1.1
Other electricity sales	18	11	7	63.6
Gas sales	2,554	2,233	321	14.4
Sales to the deregulated market	2,469	2,150	319	14.8
Sales at regulated prices	85	83	2	2.4
Regulated revenue from electricity distribution	2,209	2,231	(22)	(1.0)
Other sales and services rendered	655	641	14	2.2
Total	19,555	19,556	(1)	(0.0)

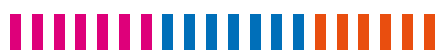
¹ Includes sales from Parques Eólicos Gestinver Gestión, S.L.U. (Euros 19 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 17 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Electricity sales to deregulated market customers

At 31 December 2018, ENDESA had 5,724,633 electricity customers in the deregulated market, 2.4% more than at 31 December 2017, with the following breakdown:

- 4,626,694 (+0.6%) in the Spanish mainland market.
- 824,807 (+4.8%) in the Non-mainland Territories (TNP) market.
- 273,132 (+33.2%) in deregulated markets outside Spain.

ENDESA's net sales to these customers in 2018 totalled 77,283 GWh, a 7.5% decrease on 2017 as follows:





→ 67,517 GWh (-6.7%) in the Spanish deregulated market.

→ 9,766 GWh (-12.9%) in deregulated markets outside Spain.

In economic terms, sales on the deregulated market in 2018 amounted to Euros 9,236 million (-3.1%), with the following breakdown:

→ Sales in the Spanish deregulated market totalled Euros 8,227 million in 2018, Euros 230 million (-2.7%) less than in 2017 due mainly to the lower number of physical units sold.

→ Revenue from sales to deregulated European markets other than Spain totalled Euros 1,009 million, down by Euros 67 million (-6.2%) from 2017, due mainly to the lower volume of electricity sold in Portugal, Germany and the Netherlands caused by changes in the customer mix.

Electricity sales at regulated prices

In 2018:

→ ENDESA sold 12,356 GWh to customers under the regulated price via its supplier of reference, which was 4.4% less than in 2017.

→ These sales entailed an income of Euros 2,339 million, down 4.9% from 2017, mainly as a result of the reduction in physical units sold.

Gas sales

At 31 December 2018, ENDESA had 1,603,731 gas customers in the deregulated market, a 2.8% increase on numbers at 31 December 2017:

→ 233,163 (-5.3%) in the regulated market.

→ 1,370,568 (+4.3%) in the deregulated market.

ENDESA sold 86,729 GWh to customers in the natural gas market in 2018, which represents an 8.6% increase on the 2017 figure.

Revenue from gas sales totalled Euros 2,554 million in 2018, up Euros 321 million (+14.4%) on the 2017 figure, as follows:

→ Gas sales in the deregulated market totalled Euros 2,469 million, which is Euros 319 million more than in 2017 (+14.8%) due mainly to the higher sales prices.

→ Revenue from gas sales at the regulated prices totalled Euros 85 million, Euros 2 million higher than the year before (+2.4%) due mainly to the higher number of physical units sold.

Compensations for Non-mainland Territories (TNP)

Compensations in 2018 for the extra-costs of Non-mainland Territories (TNP) generation totalled Euros 1,318 million, up by Euros 103 million (+8.5%) against 2017, due mainly to increased fuel prices brought about by changing commodity prices and (CO₂) emission rights.

Electricity distribution

ENDESA distributed 117,029 GWh in the Spanish market in 2018, 0.8% less than in 2017.

Regulated revenue recognised for distribution in 2018 was Euros 2,209 million, Euros 22 million less than in 2017 (-1.0%).

Other operating income

The table below presents the detail of other operating income in 2018 and the change compared with the previous year:

Millions of Euros				
	Other operating income			
	2018	2017	Difference	% Var
Changes in fuel stock derivatives	294	158	136	86.1
Grants released to income ¹	21	30	(9)	(30.0)
Recognition of contract liabilities from contracts with customers in profit or loss	157	153	4	2.6
Rendering of services at plants	6	10	(4)	(40.0)
Trading rights	42	45	(3)	(6.7)
Compensations paid to third parties	31	20	11	55.0
Other	89	85	4	4.7
Total	640	501	139	27.7

¹ Includes grants released to assets for Euros 18 million in 2018 (Euros 22 million in 2017) (see Notes 16 and 25.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

In 2018, other operating income totalled Euros 640 million, up Euros 139 million from 2017 (+27.7%) due mainly to the increase of Euros 136 million (+86.1%) in income from the valuation and settlement of energy stock derivatives due to the valuation and settlement of gas and electricity derivatives, which partially offset the increase of Euros 65 million (+35.7%) in related expenses recognised under "Other variable procurements and services" in the Consolidated Income Statement (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

2.3.2. Operating expenses

Operating expenses totalled Euros 18,546 million in 2018, 1.6% more than in 2017.

The table below presents the detail of operating expenses in 2018 and their variation compared with the previous year:

Millions of Euros				
	Operating expenses			
	2018 ¹	2017	Difference	% Var
Procurements and services	14,567	14,569	(2)	(0.0)
Power Purchases	4,784	4,933	(149)	(3.0)
Fuel consumption	2,269	2,294	(25)	(1.1)
Transport costs	5,463	5,652	(189)	(3.3)
Other variable procurements and services	2,051	1,690	361	21.4
Personnel expenses	947	917	30	3.3
Other fixed operating expenses	1,324	1,251	73	5.8
Depreciation and amortisation, and impairment losses	1,708	1,511	197	13.0
Total	18,546	18,248	298	1.6

¹ Includes operating expenses of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 1 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 9 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).





Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 14,567 million in 2018, in line with the figure for 2017.

The performance of these costs in 2018 was:

- Power purchases and fuel consumption fell by Euros 174 million (-2.4%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).
- “Other variable procurements and services” in the Consolidated Income Statement totalled Euros 2,051 million, up Euros 361 million on 2017 (+21.4%), mainly due to:

Millions of Euros

	Other variable procurements and services			
	2018	2017	Difference	% Var
Social Bonus	88	(141)	229	(162.4)
Carbon dioxide emission allowances (CO ₂)	361	214	147	68.7
Changes in fuel stock derivatives	247	182	65	35.7
Incremental costs of obtaining contracts with customers	3	64	(61)	(95.3)
Other costs associated with new products and services	179	151	28	18.5
Other	1,173	1,220	(47)	(3.9)
Total	2,051	1,690	361	21.4

> The higher cost recognised for the Social Bonus (or Social Tariff) of Euros 229 million, due mainly to the lower expense recognised in 2017 of Euros 222 million under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various related rulings.

> The Euros 147 million (+68.7%) increase in the cost carbon dioxide (CO₂) emission rights, despite the drop in thermal output (-13.3%), as a result of an increase in market prices.

> The increase of Euros 65 million (+35.7%) in expenses relating to energy derivatives, offset by the Euros 136 million increase in income for the same item (+86.1%) recognised under “Other operating income” in the Consolidated Income Statement, mainly due to changes in the valuation and settlement of gas and electricity derivatives (see Section 2.3.1. Income in this Consolidated Management Report).

> The Euros 61 million (-95.3%) decrease as a result of the capitalisation, from 1 January 2018, of the incremental costs of obtaining contracts with customers

applying IFRS 15 Revenue from Contracts with Customers (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

- > The Euros 28 million (+18.5%) increase in costs associated with new products and services), as a result of the rise in billing corresponding to these activities (Euros 32 million).

Personnel and other fixed operating expenses (fixed costs)

Fixed costs totalled Euros 2,271 million in 2018, up Euros 103 million (+4.8%) from the year before.

The table below presents the detail of fixed costs in 2018 and their variation compared with the previous year:

Millions of Euros				
	Fixed costs			
	2018 ¹	2017	Difference	% Var
Personnel expenses	947	917	30	3.3
Other fixed operating expenses	1,324	1,251	73	5.8
Total	2,271	2,168	103	4.8

¹ Includes fixed costs from Parques Eólicos Gestinver Gestión, S.L.U. (Euros 2 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 5 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Personnel expenses

Personnel expenses totalled Euros 947 million in 2018, up Euros 30 million (+3.3%) compared to 2017. The following effects should be considered when examining personnel expenses during 2018:

- Updates of provisions for workforce reduction plans underway and contract suspension agreements (negative Euros 4 million in 2018 and positive Euros 27 million in 2017, respectively).

- Net provisions for workforce succession plans, voluntary departure agreements, indemnities and other tax and occupational risks (Euros 0 million in 2018 and Euros 16 million in 2017).

Stripping out these effects, personnel expenses in 2018 would have increased by Euros 15 million (+1.6%).

Other fixed operating expenses

Other fixed operating expenses in 2018 amounted to Euros 1,324 million, up by Euros 73 million (+5.8%) from 2017.

This amount reflects an increase in fines from disciplinary proceedings of Euros 12 million.

Stripping out this impact, other fixed operating expenses in 2018 would have increased by Euros 61 million (+4.9%) from the year before, due mainly to the increase in the cost of telecommunications services of Euros 47 million, in line with targets of the digitalisation strategy (see Section 6. Outlook in this Consolidated Management Report).

Depreciation and amortisation, and impairment losses

The table below presents the detail of depreciation and amortisation, and impairment losses in 2018 and the variation compared to the previous year:





Millions of Euros

	Depreciation and amortisation, and impairment losses			
	2018 ¹	2017	Difference	% Var
DEPRECIATION AND AMORTISATION	1,480	1,350	130	9.6
Provision for the depreciation of property, plant and equipment	1,259	1,200	59	4.9
Provision for amortisation of intangible assets	221	150	71	47.3
IMPAIRMENT LOSSES	228	161	67	41.6
Non-financial assets	148	(21)	169	(804.8)
Provision for impairment losses on property, plant and equipment and investment property	153	(13)	166	(1,276.9)
Lands in Palma de Mallorca ENDESA Distribución Eléctrica, S.L.U.	—	(14) (2)	14	N/A
Thermal Power Plant of Alcudia (Balearic Islands)	157 (3)	—	157	N/A
Other property, plant and equipment and investment property	(4)	1	(5)	(500.0)
Provision for impairment losses on intangible assets	(6)	(8)	2	(25.0)
Other intangible assets	(6)	(8)	2	(25.0)
Provision for impairment losses for goodwill	1	—	1	N/A
Balearic Islands cash-generating unit (CGU)	1 (3)	—	1	N/A
Financial assets	80	182	(102)	(56.0)
Provision for impairment losses on receivables from contracts with customers	79	182	(103)	(56.6)
Provision for impairment losses on other financial assets	1	—	1	N/A
Total	1,708	1,511	197	13.0

¹ Includes depreciation and amortisation, and impairment losses of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 6 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 2 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

² Euros 11 million, net of the related tax effect.

³ Euros 119 million, net of the related tax effect.

Depreciation and amortisation, and impairment losses totalled Euros 1,708 million in 2018, up Euros 197 million (+13.0%) compared to 2017. The following factors must be taken into account when looking at depreciation and amortisation, and impairment losses for 2018:

→ A provision for impairment was recognised in 2018 following publication of the Order TEC/1158/2018, of 29 October 2018, on the additional remuneration of Non-mainland Territories (TNP) electricity generating facilities, required to make additional investments in order to comply with EU and Spanish regulations in order to remain operational, which does not include the coal-fired units of the Thermal Power Plant of Alcudia (Balearic Islands).

In not recognising this additional remuneration system, on 27 December 2018, the Company filed against the Directorate General of Energy and Climate Change of the Balearic Government, the request for authorization to close the Groups 1 and 2 of the Thermal Power Plant of Alcudia (Balearic Islands) and, also, a reduction of the estimated useful life of Groups 3 and 4 of that Power Plant.

As a result, the recoverable amount of these assets is lower than their carrying amount, resulting in the recognition on the Consolidated Income Statement of an impairment loss amounting to Euros 158 million (see Notes 3e.2, 6, 10 and 29 to the Consolidated Financial Statements for the year ended 31 December 2018).

→ The capitalisation from 1 January 2018 in “Non-current assets” in the Consolidated Statement of Financial Position of the incremental costs of obtaining contracts with customers in accordance with IFRS 15 Revenue from Contracts with Customers includes an increase of Euros 54 million in depreciation and amortisation costs related to this item (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

→ In 2017, there was also a reversal of impairment losses on property, plant and equipment recognised in previous periods for certain land amounting to Euros 14 million.

Without considering the impacts described in preceding paragraphs, depreciation and amortisation, and impairment

losses in 2018 would have decreased by EUR 29 million (-1.9%) from 2017.

2.3.3. Net financial profit/(loss)

The Group reported net financial losses of Euros 139 million and Euros 123 million in 2018 and 2017, respectively.

The table below presents the detail of net financial profit/(loss) in 2018 and its variation compared with the previous year:

Millions of Euros				
	Net financial profit/(loss) (1)			
	2018 ²	2017	Difference	% Var
Financial income	36	51	(15)	(29.4)
Financial expense	(173)	(178)	5	(2.8)
Net exchange differences	(2)	4	(6)	(150.0)
Total	(139)	(123)	(16)	13.0

¹ Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.

² Includes the net financial profit/(loss) of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 3 million loss) from the date control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

The net financial loss in 2018 totalled Euros 137 million, up Euros 10 million (+7.9%) from 2017.

Net exchange differences amounted to negative Euros 2 million in 2018 (net exchange gains of Euros 4 million in 2017).

The following effects should be considered when examining net financial losses in 2018:

Millions of Euros				
	Net financial loss ¹			
	2018	2017	Difference	% Var
Expenses for financial liabilities at amortised cost	(129)	(133)	4	(3.0)
Income from financial assets at amortised cost	10	19	(9)	(47.4)
Interest for financing deficit	7	—	7	N/A
Social Bonus	—	15	(15)	N/A
Other	3	4	(1)	(25.0)
Update of provisions for workforce restructuring plans, plant dismantling and impairment of financial assets in accordance with IFRS 9 Financial Instruments	(8)	(5)	(3)	60.0
Other	(10)	(8)	(2)	25.0
Total	(137)	(127)	(10)	7.9

¹ Net financial expense - Financial income - Financial expense.





- In both 2018 and 2017 there was an update in the provisions for obligations arising from workforce reduction plans underway and contract suspension agreements, the dismantling of facilities, and the impairment of financial assets in accordance with IFRS 9 Financial Instruments (see Section 2.2. Changes in accounting policies in this Consolidated Management Report) for a negative net amount of Euros 8 million and Euros 5 million, respectively.
- In 2018, financial income of Euros 7 million was recognised for revenue associated with the adjustment of interests for financing the deficit of income in regulated activities in Spain in 2013 (see Section 3. Regulatory Framework in this Consolidated Management Report) while in 2017 financial income were recognized in relation to the Supreme Court ruling on the enforcement of the judgement filed by ENDESA and with regard to the Social Bonus for the amount of Euros 15 million.

Without considering the impacts described in the previous paragraphs, net financial loss in 2018 would have decreased by Euros 1 million (-0.7%) due to the combination of the following factors (see Section 4.1. Financial Management in this Consolidated Management Report):

The lower average cost of gross financial debt, which fell from 2.1% in 2017 to 1.9% in 2018.

The higher average gross financial debt in both periods, rising from Euros 6,082 million in 2017 to Euros 6,777 million in 2018.

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

In 2018, companies accounted for using the equity method contributed net profit of Euros 35 million, compared to a net loss of Euros 15 million in 2017, as follows:

Millions of Euros		Net profit/(loss) of companies accounted for using the equity method	
		2018	2017
Associates		7	4
Tecnatom, S.A.		—	(4)
Gorona del Viento El Hierro, S.A.		—	3
Boiro Energía, S.A.		1	2
Compañía Eólica Tierras Altas, S.A.		1	1
Other		5	2
Joint Ventures		28	(19)
Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A.		7	10
Nuclenor, S.A. ¹		4	(48)
Énergie Électrique de Tahhadart, S.A.		2	7
Suministradora Eléctrica de Cádiz, S.A.		2	1
Other		13	11
Total		35	(15)

¹ See Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2018.

In 2017, this heading included a loss of Euros 48 million on the 50% interest in Nuclenor, S.A. due to recognition of a provision to cover the additional costs estimated for the dismantling of the Nuclear Plant at Santa María de Garoña (Burgos).

2.3.5. Gains/(losses) on disposal of assets

Gains on disposal of assets in 2018 and 2017 amounted to Euros 3 million and Euros 7 million, respectively, broken down as follows:

Millions of Euros		Gains/(losses) on disposal of assets	
	Sections	2018	2017
Non-financial assets		38	34
Land at Sant Adrià del Besòs	2.5	34 ¹	-
Other gains/(losses)		4	34
Proceeds from sale of investments in Group companies and other		-	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.		-	4
Nueva Marina Real Estate, S.L.		-	9
Proceeds from sale of property, plant and equipment		4	7
Other		-	14
Financial assets		(35)	(27)
Factoring transaction fees		(35)	(27)
NET Total		3	7

¹ Euros 25 million, net of the related tax effect.

2.3.6. Income tax expense

Income tax expense in 2018 amounted to Euros 392 million, a decrease of Euros 35 million from 2017 (-8.2%).

The effective tax rate in 2018 was 21.6% (22.5% in 2017).

In 2018, this item of the Consolidated Income Statement included Euros 25 million for the inspection carried out by the tax authorities on income tax for the years 2011 to 2014.

Stripping out the impact described in the preceding paragraph, the effective tax rate in 2018 would have been 20.2%.

2.3.7. Net income

Net income attributable to the parent company in 2018 amounted to Euros 1,417 million, a decrease of Euros 46 million (-3.1%) from 2017.

Net ordinary income attributable to the parent company in 2018 totalled Euros 1,511 million, up Euros 59 million (+4.1%) from the year before.

2.4. Segment information

Segment information is included in Note 34 to the Consolidated Financial Statements for the year ended 31 December 2018.





The table below presents the detail of ENDESA's main figures for 2018 and their variation compared with the previous year:

Millions of Euros

	2018				2017			
	Generation and supply	Distribution	Structure and other ¹	Total	Generation and supply	Distribution	Structure and other ¹	Total
Income	17,621	2,784	(210)	20,195	17,509	2,750	(202)	20,057
Contribution margin	3,157	2,583	(112)	5,628	2,784	2,590	114	5,488
EBITDA ²	1,617	2,059	(49)	3,627	1,350	2,050	142	3,542
EBIT ³	588	1,429	(98)	1,919	488	1,453	90	2,031
Net financial profit/(loss) ⁴	(150)	(75)	86	(139)	(132)	(96)	105	(123)
Profit before tax	468	1,363	(13)	1,818	314	1,379	207	1,900
Net income	396	1,046	(25)	1,417	263	1,048	152	1,463
Net ordinary income ⁵	490	1,046	(25)	1,511	263	1,037	152	1,452

¹ Structure, services and adjustments.

² EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

³ EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

⁴ Net financial profit/(loss) = Financial Income - Financial Expenses + Net Exchange Differences

⁵ Net ordinary income = Profit/(loss) for the Parent company - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

2.4.1. Contribution margin

The table below presents the distribution of the revenue from sales and other operating income among ENDESA businesses in 2018 and variations compared with the previous year:

Millions of Euros

	Revenue from sales				Other operating income			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	17,203	17,223	(0.1)	88.0	418	286	46.2	65.3
Non-mainland generation (TNP)	2,106	1,943	8.4	10.8	9	9	—	1.4
Other generation and supply	16,118	16,204	(0.5)	82.4	409	277	47.7	63.9
Adjustments	(1,021)	(924)	10.5	(5.2)	—	—	—	—
Distribution	2,509	2,492	0.7	12.8	275	258	6.6	43.0
Structure and other ¹	(157)	(159)	(1.3)	(0.8)	(53)	(43)	23.3	(8.3)
Total	19,555	19,556	(0.0)	100.0	640	501	27.7	100.0

¹ Structure, services and adjustments.

The following table contains the breakdown of procurements and services between ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros

	Procurements and Services ²			
	2018	2017	% Var	% of total
Generation and supply	14,464	14,725	(1.8)	99.3
Non-mainland Territories generation (TNP)	1,504	1,258	19.6	10.3
Other generation and supply	13,976	14,385	(2.8)	95.9
Adjustments	(1,016)	(918)	10.7	(6.9)
Distribution	201	160	25.6	1.4
Structure and other ¹	(98)	(316)	(69.0)	(0.7)
Total	14,567	14,569	(0.0)	100.0

¹ Structure, services and adjustments.

² Procurements and services = Power purchases + Fuel consumption + Transport costs + Other variable procurements and services.

The breakdown of the contribution margin in ENDESA's businesses in 2018 and variations compared to the previous year are as follows:

Millions of Euros

	Contribution margin ²			
	2018	2017	% Var	% of total
Generation and supply	3,157	2,784	13.4	56.1
Non-mainland Territories generation (TNP)	611	694	(12.0)	10.9
Other generation and supply	2,551	2,096	21.7	45.3
Adjustments	(5)	(6)	(16.7)	(0.1)
Distribution	2,583	2,590	(0.3)	45.9
Structure and other ¹	(112)	114	(198.2)	(2.0)
Total	5,628	5,488	2.6	100.0

¹ Structure, services and adjustments.

² Contribution margin = Income - Procurements and services.

Generation and supply segment

The contribution margin in the Generation and supply segment totalled Euros 3,157 million in 2018, up Euros 373 million (+13.4%) from 2017, due mainly to the following factors:

→ The decrease in power purchases (-3.1%) and fuel consumption (-1.1%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).

→ The Euros 147 million (+68.7%) increase in the cost of carbon dioxide (CO₂) emission rights, despite lower thermal output (-13.3%), as a result of the increase in market prices.

→ The Euros 71 million increase in income and expenses for the valuation of energy stocks due to changes in the valuation and settlement of gas and electricity derivatives (see Section 2.3.1. Income and 2.3.2. Operating expenses in this Consolidated Management Report).

→ The Euros 61 million (-95.3%) reduction in costs as a result of the capitalisation under Non-current assets in the Consolidated Statement of Financial Position of the





incremental costs of obtaining contracts with customers as of 1 January 2018 (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

The difference is mainly the result of the lower cost recognised for the Social Bonus in 2017 for Euros 222 million, under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various rulings in this respect.

Distribution segment

The contribution margin in the Distribution segment in 2018 totalled Euros 2,583 million, down Euros 7 million (-0.3%) from the year before.

Structure and other

The contribution margin for Structure and other was a negative Euros 112 million in 2018, down Euros 226 million from 2017.

2.4.2. EBITDA

The table below presents the EBITDA of ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros				
	EBITDA ²			
	2018	2017	% Var	% of total
Generation and supply	1,617	1,350	19.8	44.6
Non-mainland generation (TNP)	356	452	(21.2)	9.8
Other generation and supply	1,261	898	40.4	34.8
Adjustments	—	—	—	—
Distribution	2,059	2,050	0.4	56.8
Structure and other ¹	(49)	142	(134.5)	(1.4)
Total	3,627	3,542	2.4	100.0

¹ Structure, services and adjustments.

² EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

The following table contains the breakdown of personnel expenses and other fixed operating expenses for ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros								
	Personnel expenses				Other fixed operating expenses			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	520	478	8.8	54.9	1,103	998	10.5	83.3
Non-mainland generation (TNP)	85	84	1.2	9.0	174	159	9.4	13.1
Other generation and supply	435	394	10.4	45.9	934	845	10.5	70.5
Adjustments	—	—	—	—	(5)	(6)	(16.7)	(0.3)
Distribution	263	267	(1.5)	27.8	428	429	(0.2)	32.3
Structure and other ¹	164	172	(4.7)	17.3	(207)	(176)	17.6	(15.6)
Total	947	917	3.3	100.0	1,324	1,251	5.8	100.0

¹ Structure, services and adjustments.

Generation and supply segment

In 2018, EBITDA for this segment was Euros 1,617 million (+19.8%). The assessment of the performance in 2018 must consider the increase of 13.4% in the contribution margin and the trend in personnel expenses (+8.8%) and other fixed operating expenses (+10.5%).

→ A negative variation in the contribution margin triggered by the lower expense recognised for the Social Bonus in 2017.

→ The decrease in personnel expenses (-4.7%) due mainly to the decline in the average headcount (-6.2%) (see Section 11.1. Workforce in this Consolidated Management Report).

Distribution segment

EBITDA for this segment in 2018 was Euros 2,059 million, up 0.4%, as the decrease in the contribution margin (-0.3%) was offset by control over fixed operating costs (-0.7%).

→ The increase in other fixed operating expenses (+17.6%) was due mainly to the high cost of telecommunications services in line with the strategic digitalisation strategy (see Section 6. Outlook in this Consolidated Management Report).

Structure and other

EBITDA for the Structure and other segment decreased by Euros 191 million in 2018, including:

2.4.3. EBIT

The table below presents EBIT of ENDESA's business units in 2018 and variations compared with the previous year:

Millions of Euros				
	EBIT (2)			
	2018	2017	% Var	% of total
Generation and supply	588	488	20.5	30.6
Non-mainland Territories generation (TNP)	42	285	(85.3)	2.2
Other generation and supply	546	203	169.0	28.4
Adjustments	—	—	—	—
Distribution	1,429	1,453	(1.7)	74.5
Structure and other (1)	(98)	90	(208.9)	(5.1)
Total	1,919	2,031	(5.5)	100.0

¹ Structure, services and adjustments.

² EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

The breakdown of depreciation and amortisation, and impairment losses in ENDESA's businesses in 2018 and the year-on-year change are as follows:



Millions of Euros

	Depreciation and amortisation, and impairment losses			
	2018	2017	% Var	% of total
Generation and supply	1,029	862	19.4	60.2
Non-mainland Territories generation (TNP)	314	167	88.0	18.4
Other generation and supply	715	695	2.9	41.8
Adjustments	—	—	—	—
Distribution	630	597	5.5	36.9
Structure and other ¹	49	52	(5.8)	2.9
Total	1,708	1,511	13.0	100.0

¹ Structure, services and adjustments.

Generation and supply segment

In 2018, EBIT for the Generation and supply segment was Euros 588 million (+20.5%), including:

- A 19.8% increase in EBITDA.
- An increase in “Depreciation and amortisation, and impairment losses” in the Consolidated Income Statement for 2018 of Euros 167 million (+19.4%) due to the impairment loss recognised related to the Thermal Power Plant of Alcudia (Balearic Islands) for Euros 158 million and the depreciation and amortisation charge for the incremental costs of obtaining contracts with customers in accordance with IFRS 15 Revenue from Contracts with Customers as of 1 January 2018 for Euros 54 million (see Sections 2.2. Changes in accounting policies in this Consolidated Management Report and 2.3.2. Operating expenses).

Distribution segment

EBIT for the Distribution segment in 2018 decreased by Euros 24 million (-1.7%) from 2017, mainly as a result of the Euros 33 million higher depreciation and amortisation expense.

Structure and other

EBIT for Structure and other in 2018 amounted to a negative Euros 98 million, due mostly to the decrease of Euros 191 million in EBITDA.

2.5. Consolidation scope

Corporate transactions related to capacity awarded in renewable power auctions

2018 featured the acquisitions of the following companies, all of which develop the wind and photovoltaic capacity awarded to ENEL Green Power España, S.L.U. (EGPE) in 2017 capacity auctions:

Companies acquired in 2018

	Acquisition date	Technology	% stake at 31 December 2018		% stake at 31 December 2017	
			Control	Economic	Control	Economic
Valdecaballero Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Navalvillar Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Castiblanco Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Parque Eólico Muniesa, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Parque Eólico Farlán, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Aranort Desarrollos, S.L.U.	19 January 2018	Wind	100.00	100.00	—	—
Bosa del Ebro, S.L.	21 February 2018	Wind	51.00	51.00	—	—
Tauste Energía Distribuida, S.L.	23 March 2018	Wind	51.00	51.00	—	—
Eólica del Cierzo, S.L.U.	23 March 2018	Wind	100.00	100.00	—	—
San Francisco de Borja, S.A.	23 March 2018	Wind	66.67	66.67	—	—
Energía Eólica Alto del Llano, S.L.U.	11 May 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Campoliva, S.A.U.	17 July 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Sierra del Carazo, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Alcohuja, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—

The price agreed for all these transactions was Euros 5 million (see Note 5.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 4.4. Cash flows in this Consolidated Management Report).

ENDESA has recognised the acquisition of these companies as a business combination. Using the acquisition method, it recognised definitively the assets acquired and liabilities assumed (net assets acquired) of each at their acquisition-date fair value in the following headings of the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	8
Property, plant and equipment	8
Current assets	1
Trade and other receivables	1
Total ASSETS	9
Non-current liabilities	1
Deferred tax liabilities	1
Current liabilities	3
Current financial debt	3 (1)
Total LIABILITIES	4
Fair value of net assets acquired	5

¹ Includes debts with Group and Associated Companies amounting to Euros 3 million.

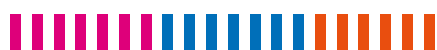
The companies acquired have secured the permits and licences to carry out their projects and construction work is underway on the power facilities. No revenue from contracts with customers has been generated since the acquisition date.

At 31 December 2018, gross investments in these companies relating to the construction of the wind and photovoltaic power amounted to Euros 83 million (See Notes 5.1 and 6.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 4.5. Investments in this Consolidated Management Report).

Parques Eólicos Gestinver, S.L.U.

On 3 April 2018, an agreement was signed, through ENEL Green España, S.L.U. (EGPE), to acquire 100% of the share capital of Parques Eólicos Gestinver, S.L.U. and its wholly-owned (100%), Parques Eólicos Gestinver Gestión, S.L.U., for Euros 42 million (see Note 5.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

Parques Eólicos Gestinver, S.L.U. has installed wind power capacity of 132 MW, distributed across five wind farms located in the regions of Galicia and Catalonia.





Through this acquisition, ENDESA reinforces its presence in the Iberian generation market by expanding the portfolio of renewable assets in its production mix.

The net cash outflow from the acquisition of Parques Eólicos Gestinver, S.L.U. was calculated as follows (see Section 4.4. Cash Flows in this Consolidated Management Report):

Millions of Euros	
	Sections
Cash and cash equivalents of the acquiree	(12)
Net amount paid in cash ^{1,2}	57
Total	4.4 45

¹ The purchase costs recognised under "Other fixed operating expenses" in the Consolidated Income Statement amounted to Euros 1 million.

² Of this, Euros 42 million related to the price of the shareholding in that company and Euros 15 million to the subordinated debt it held with its former shareholders.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Parques Eólicos Gestinver, S.L.U. under the following items in the Consolidated Financial Statements:

Millions of Euros	
	Fair value
Non-current assets	181
Property, plant and equipment	139
Intangible assets	34
Deferred tax assets	8
Current assets	19
Trade and other receivables	5
Current financial assets	2
Cash and cash equivalents	12
Total ASSETS	200
Non-current liabilities	140
Non-current provisions	1
Non-current interest-bearing loans and borrowings ¹	130
Deferred tax liabilities	9
Current liabilities	18
Current interest-bearing loans and borrowings	12
Trade payables and other current liabilities	6
Total LIABILITIES	158
Fair value of net assets acquired	42

¹ Includes bank borrowings amounting to Euros 104 million, (see Note 18.1 to the Consolidated Financial Statements for the year ended 31 December 2018), derivatives amounting to Euros 11 million, and debts to Group companies and associates amounting to Euros 15 million.

The contribution by the acquiree is as follows:

Millions of Euros		
	3 April 2018 - 31 December 2018 ¹	2018 ²
Ordinary Revenue	19	27
Profit/(loss) after tax	4	6

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

Eólica del Principado, S.A.U.

On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60.0% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists in the generation of electricity through renewable wind technology, in which it previously held a 40% stake (see Note 5.3 to the Consolidated Financial Statements for the year ended 31 December 2018).

As a result of this transaction, ENDESA went from having significant influence to full control of Eólica del Principado, S.A.U.

The net cash outflow arising from the acquisition of Eólica del Principado, S.A.U. amounted to less than Euros 1 million (see Section 4.4. Cash flows in this Consolidated Management Report).

The purchase price was definitively allocated on the basis of the acquisition-date fair values of the assets acquired and liabilities assumed (Net assets acquired) from Eólica del Principado, S.A.U. under the following headings in the Consolidated Financial Statements:

Millions of Euros	
	Fair value
Non-current assets	1
Property, plant and equipment	1
Total ASSETS	1
Fair value of net assets acquired	1

The contribution by the acquiree is as follows:

Millions of Euros		
	22 May 2018 – 31 December 2018 ¹	2018 ²
Ordinary Revenue	—	1
Profit/(loss) after tax	—	1

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

The net gain at the date control was obtained as a result of the fair-value measurement of the non-controlling interest of 40.0% in Eólica del Principado, S.A.U. was less than Euros 1 million (see Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2018).

Empresa de Alumbrado Eléctrico de Ceuta, S.A.

On 25 July 2018, ENDESA, through ENDESA Red, S.A.U., acquired 94.6% of the share capital of Empresa de Alumbrado Eléctrico de Ceuta, S.A., which owns 100% of Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. and 100% of Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U., for Euros 83 million (see Note 5.4 to the Consolidated Financial Statements for the year ended 31 December 2018).

Empresa de Alumbrado Eléctrico de Ceuta, S.A. has more than 30,000 customers and is the leading electricity distribution and supply company in Ceuta, a region where ENDESA carries out electricity generation activities. Therefore, this acquisition is coherent with the strategy of driving growth in distribution and supply in Spain and Portugal.

The net cash outflow for the acquisition of Empresa de Alumbrado Eléctrico de Ceuta, S.A. was as follows:

Millions of Euros	
	Sections
Cash and cash equivalents of the acquiree	(2)
Net amount paid in cash ¹	83
Total	4.4 81

¹ The purchase costs recognised under “Other fixed operating expenses” in the Consolidated Income Statement were less than Euros 1 million.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Empresa de Alumbrado Eléctrico de Ceuta, S.A. under the following items of the Consolidated Financial Statements:

Millions of Euros	
	Fair value
Non-current assets	84
Property, plant and equipment	66
Investment property	4
Intangible assets	14
Current assets	9
Trade and other receivables	6
Current financial assets	1
Cash and cash equivalents	2
Total ASSETS	93
NON-CONTROLLING INTERESTS	4
Non-current liabilities	22
Deferred income	15
Non-current provisions	1
Other non-current Liabilities	1
Deferred tax liabilities	5
Current liabilities	5
Trade payables and other current liabilities	5
Total LIABILITIES	27
Fair value of net assets acquired	62

The difference between the cost of the business combination and the fair value of the assets and liabilities recognised gave rise to a goodwill of Euros 21 million for the synergies to be obtained in the transaction, based on the optimisation of ENDESA's position in the distribution market of the self-governing city of Ceuta, which will allow



cost reductions to be achieved through joint management, improved grid operations and the pooling of processes (see Note 10 to the Consolidated Financial Statements for the year ended 31 December 2018).

Subsequently, in November and December 2018, an additional 1.7% of share capital was acquired for Euros 2 million (see Section 4.4. Cash flows in this Consolidated Management Report) leaving the shareholding in Empresa de Alumbrado Eléctrico de Ceuta, S.A. at 31 December 2018 at 96.3%. These transactions had a negative impact on the equity of non-controlling interests of Euros 2 million.

The contribution by the acquiree is as follows:

Millions of Euros	25 July 2018 - 31 December 2018 ¹	2018 ²
Ordinary Revenue	17	39
Profit/(loss) after tax	1	2

¹ From the acquisition date.

² Had the acquisition been carried out on 1 January 2018.

Front Marítim del Besòs, S.L.

On 18 December 2018, ENDESA Generación, S.A.U. acquired 61.37% of share capital in Front Marítim del Besòs, S.L. from Metrovacesa, S.A. for Euros 1,841. Although ENDESA holds a stake of over 50% in this company, the investment is classified as a "joint venture" since ENDESA, under the agreement entered into with its partners, has joint control over the company's net assets (see Notes 2.3.2 and 2.5.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

On the same date, ENDESA Generación, S.A.U. and Metrovacesa, S.A., as partners of Front Marítim del Besòs, S.L., agreed to carry out a capital increase via a non-monetary contribution in proportion to their percentage holdings, whereby ENDESA Generación, S.A.U. contributed

with certain lands it owned in the Tres Chimeneas area in Sant Adrià del Besòs (Barcelona) valued at Euros 92 million, producing a gross gain of Euros 34 million (see Section 2.3.5. Gains/(losses) on disposal of assets in this Consolidated Management Report).

2.6. Statistical appendix

Industrial Data

GWh			
Electricity generation ¹	2018	2017	% Var
Mainland	61,338	65,499	(6.4)
Nuclear	24,067	26,448	(9.0)
Coal	19,924	22,303	(10.7)
Hydroelectric	8,339	5,004	66.6
Combined cycle (CCGT)	5,293	8,409	(37.1)
Renewables and cogeneration	3,715	3,335	11.4
Non-mainland Territories generation (TNP)	12,855	13,149	(2.2)
Coal	2,392	2,603	(8.1)
Fuel-gas	6,681	7,000	(4.6)
Combined cycles (CCGT)	3,664	3,440	6.5
Renewables and cogeneration	118	106	(11.3)
Total	74,193	78,648	(5.7)

¹ At busbar cost.

MW			
Gross installed capacity	31 December 2018	31 December 2017	% Var
Hydroelectric	4,753	4,752	—
Conventional thermal	8,077	8,130	(0.7)
Nuclear	3,443	3,443	—
Combined cycles	5,678	5,678	—
Renewables and cogeneration	1,815	1,675	8.4
Total	23,766	23,678	0.4

MW			
	31 December 2018	31 December 2017	% Var
Net installed capacity			
Hydroelectric	4,712	4,709	0.1
Conventional thermal	7,428	7,585	(2.1)
Nuclear	3,318	3,318	—
Combined cycles	5,445	5,445	—
Renewables and cogeneration	1,815	1,675	8.4
Total	22,718	22,732	(0.1)

GWh			
	2018	2017	% Var
Gross electricity sales ¹			
Regulated Price	14,432	15,263	(5.4)
Deregulated market	84,246	91,487	(7.9)
Deregulated market in Spain	73,971	79,747	(7.2)
Deregulated market outside Spain	10,275	11,740	(12.5)
Total	98,678	106,750	(7.6)

¹ At busbar cost.

GWh			
	2018	2017	% Var
Net electricity sales ¹			
Regulated Price	12,356	12,919	(4.4)
Deregulated market	77,283	83,594	(7.5)
Deregulated market in Spain	67,517	72,386	(6.7)
Deregulated market outside Spain	9,766	11,208	(12.9)
Total	89,639	96,513	(7.1)

¹ Sales to end customers.

Thousands			
	31 December 2018	31 December 2017	% Var
Number of customers (electricity) ¹			
Regulated market	5,029	5,255	(4.3)
Mainland Spain	4,246	4,416	(3.8)
Non-mainland Territories generation (TNP)	783	839	(6.7)
Deregulated market	5,725	5,593	2.4
Mainland Spain	4,627	4,601	0.6
Non-mainland Territories generation (TNP)	825	787	4.8
Outside Spain	273	205	33.2
Total	10,754	10,848	(0.9)

¹ Supply points.

Percentage (%)		
	2018	2017
Electricity demand trend ¹		
Mainland ²	0.4	1.1
Non-mainland territories (TNP) (3)	(0.6)	2.6

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

² Adjusted for working days and temperature: +0.3% in 2018 and +1.6% in 2017.

³ Adjusted for working days and temperature: -2.8% in 2018 and +3.4% in 2017.

GWh			
	2018	2017	% Var
Energy distributed ¹			
Spain and Portugal	117,029	117,961	(0.8)

¹ At busbar cost.

km			
	31 December 2018	31 December 2017	% Var
Distribution and transmission networks			
Spain and Portugal	319,613	317,782	0.6

Percentage (%)		
	2018	2017
Energy losses ¹		
Spain and Portugal	10.7	10.6

¹ Source: In-house.

Minutes		
	2018	2017
Installed Capacity Equivalent Interruption Time (ICEIT)		
Spain and Portugal (average) ^{1, 2}	65	62

¹ Corresponds to Spain.

² According to the calculation procedure set down by Royal Decree 1995/2000, of 1 December 2000.

Percentage (%)		
	31 December 2018	31 December 2017
Market share (electricity) ¹		
Mainland generation	22.5	23.6
Distribution	43.6	44.1
Supply	33.4	35.4

¹ Source: In-house.

GWh			
	2018	2017	% Var
Gas sales (1)			
Deregulated market	47,810	46,578	2.6
Regulated market	1,430	1,372	4.2
International market	25,270	24,523	3.0
Wholesale business	12,219	7,361	66.0
Total	86,729	79,834	8.6

¹ Excluding own generation consumption.

Thousands			
	31 December 2018	31 December 2017	% Var
Number of customers (gas) ¹			
Regulated market	233	246	(5.3)
Mainland Spain	208	219	(5.0)
Non-mainland Territories generation (TNP)	25	27	(7.4)
Deregulated market	1,371	1,314	4.3
Mainland Spain	1,230	1,205	2.1
Non-mainland Territories generation (TNP)	68	63	7.9
Outside Spain	73	46	58.7
Total	1,604	1,560	2.8

¹ Supply points.





Percentage (%)

Gas demand trend ¹	2018	2017
Domestic market	(0.4)	9.1
Domestic conventional	4.5	5.1
Electricity sector	(18.3)	26.7

¹ Source: Enagás, S.A.

Percentage (%)

Market share (Gas) ¹	31 December 2018	31 December 2017
Deregulated market	16.3	16.1

¹ Source: In-house.

Financial Data

Millions of Euros

	Consolidated Income Statement		
	2018	2017	% Var
Revenue from sales	19,555	19,556	(0.0)
Contribution margin ¹	5,628	5,488	2.6
EBITDA ²	3,627	3,542	2.4
EBIT ³	1,919	2,031	(5.5)
Net income/(loss) ⁴	1,417	1,463	(3.1)
Net ordinary income ⁵	1,511	1,452	4.1

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 EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

⁴ Net income/(loss): Profit/(loss) of the Parent.

⁵ Net ordinary income = Profit/(loss) of the Parent company - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

Euros

Valuation key figures	2018	2017	% Var
Earnings per share ¹	1.34	1.38	(3.2)
Net ordinary earnings per share ²	1.43	1.37	4.1
Cash flow per share ³	2.29	2.30	(0.7)
Book value per share ⁴	8.54 ⁵	8.59 ⁶	(0.6)

¹ Earnings per share = Profit/(loss) of the Parent/ No. of shares at the end of the period.

² Ordinary earnings per share = Profit/(loss) of the Parent/ No. of shares at the end of the period.

³ Cash flow per share = Net cash flows from operating activities / No. of shares at the end of the period.

⁴ Book value per share = Equity of the Parent / No. of shares at the end of the period.

⁵ At 31 December 2018

⁶ At 31 December 2017

Millions of Euros

	Consolidated Statement of Financial Position		
	31 December 2018	31 December 2017	% Var
Total assets	31,656	31,037	2.0
Equity	9,181	9,233	(0.6)
Net financial debt ¹	5,770	4,985	15.7

¹ Net financial debt = Non-current interest-bearing loans and borrowings + Current interest-bearing loans and borrowings - Cash and cash equivalents - Derivatives recognised as financial assets.

Profitability indicators (%)

	31 December 2018	31 December 2017
Return on equity ¹	15.63	16.21
Return on assets ²	4.52	4.72
Economic profitability ³	8.81	9.31
Return on capital employed (ROCE) ⁴	4.80	5.08

¹ Return on equity = Profit/(loss) for the year of the Parent / Average equity of the Parent.

² Return on assets = Profit/(loss) for the year of the Parent / Average total assets.

³ Economic profitability = 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 2018	31 December 2017
Liquidity ratio ¹	0.73	0.73
Solvency ratio ²	0.92	0.92
Debt ratio ³	38.59	35.06
Debt coverage ratio ⁴	1.59	1.41

¹ Liquidity = Current assets / Current liabilities.

² Solvency = (Equity + Non-current liabilities) / Non-current assets.

³ Debt ratio = Net financial debt / (Equity + Net financial debt) (%).

⁴ Debt coverage = Net financial debt / 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 2018.

The main changes in the Spanish regulatory framework either approved in 2018 or with a material impact on the Consolidated Financial Statements for that year are described below.

Electricity tariff

Ministerial Order ETU/1282/2017, of 22 December 2017, establishing access tariffs for 2018, was published in the Official State Gazette on 27 December 2017. Under this Order, the access tariffs were unchanged.

Ministerial Order TEC/1366/2018, of 20 December 2018, establishing access tariffs for 2019, was published in the Official State Gazette on 22 December 2018. Electricity access tariffs remained unchanged in the Order. This Order repealed the incentive for availability of Order ITC/3127/2011, of 17 November 2011, until the capacity mechanisms are reviewed for adaptation to European regulations and the energy transition process.

Natural gas tariff

Under Order ETU/1283/2017, of 22 December 2017, access tariffs in force in 2017 were largely maintained,

having updated the Last Resort Tariffs (LRT) with an average increase of 5% resulting from higher raw material costs.

On 30 June 2018, the Resolution of 28 June 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 July 2018, resulting in an average increase of approximately 3.4%, derived from the increase in the cost of the raw material.

On 29 September 2018, the Resolution of 25 September 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 October 2018, resulting in an average increase of approximately 7.4%, compared to the previous period, derived from the increase in the cost of the raw material.

On 22 December 2018, Order TEC/1367/2018, of 20 December 2018, establishing access tariffs for gas for 2019, which remained unchanged, and on 28 December 2018, the Resolution of 26 December, publishing the Last Resort Tariffs (LRT) for natural gas applicable from 1 January 2019, implying an average reduction of approximately 4% due to lower raw material cost, were published in the Official State Gazette (BOE).





Energy efficiency

Law 18/2014 of 15 October 2014, approving urgent measures to support growth, competitiveness and efficiency, saw the creation of the Energy Efficiency National Fund with the aim of achieving energy savings.

Order ETU/257/2018 of 16 March 2018 entailed a contribution by ENDESA to the Energy Efficiency National Fund of Euros 29 million, corresponding to its 2018 obligations.

In December 2018, the Ministry for the Ecological Transition began processing a proposed Order establishing the contribution to the National Energy Efficiency Fund for 2019, of which ENDESA's share is Euros 28 million.

Social Bonus (or Social Tariff)

On 7 April 2018, Order ETU/361/2018, of 6 April 2018, was published, amending the Social Bonus application forms established in Order ETU/943/2017, of 6 October 2017, which implements Royal Decree 897/2017, of 6 October 2017, regulating the concept of vulnerable consumers, the Social Bonus and other protection measures for domestic consumers of electricity. Furthermore, this Order extended the existing transitional period until 8 October 2018 for consumers of electricity who, on the date of entry into force of Order ETU/943/2017, of 6 October 2017, were beneficiaries of the Social Bonus, to prove the status of vulnerable consumer in accordance with the provisions of Royal Decree 897/2017, of 6 October 2017. However, under Royal Decree Law 15/2018, of 5 October 2018, as described below, if these consumers had applied for the Social Bonus between 8 October 2018 and 31 December 2018, they could be able to benefit from the same as of 8 October 2018.

On 21 November 2018, Order TEC/1226/2018, of 13 November 2018, approving the Social Bonus for 2018 was published in the Official State Gazette (BOE), with ENDESA allocated a 37.15% share.

Public consultation of the Spanish Markets and Competition Commission (CNMC) on remuneration for regulated activities

On 27 July 2018, the Spanish Markets and Competition Commission (CNMC) began a public consultation on the calculation methodology used for the remuneration rate in the second regulatory period 2020-2025 for distribution, transmission, Non-mainland Territories (TNP) and renewables. As a result of the same, on 30 October 2018, the Spanish Markets and Competition Commission (CNMC) issued a report in which it proposed remuneration for distribution, transmission and Non-mainland Territories (TNP) systems of 5.58% and for Renewables of 7.09%.

Based on said report, on 28 December 2018 the Ministry for the Ecological Transition presented a draft law for the 2020-2025 rate of remuneration. This draft law established remuneration in the 2020-2025 period for transmission, distribution and generation in Non-mainland Territories systems (TNP) of 5.58% and a return of 7.09% on production from renewable energy sources, cogeneration, and waste. Furthermore, remuneration for renewable facilities under the remuneration regime prior to Royal Decree Law 9/2013, of 12 July 2013, will not be revised in the 2020-2031 period, with the current return of 7.389% being applicable, although compensation payments linked to unappealable court rulings will be deducted via settlements, based on the difference between 7.389% and 7.09%. However, facilities have a right to waive the same and adopt the general system.

Following the presentation of said draft law, the government approved Royal Decree Law 1/2019, of 11 January 2019, detailed below, which likewise includes aspects concerning the establishment of rates of remuneration.

Law 6/2018, of 3 July 2018, concerning General State Budgets for 2018

On 4 July 2018, Law 6/2018, of 3 July 2018, on the General State Budgets (PGE) for 2018, was published in the Official State Gazette (BOE). Among other aspects, it establishes that surplus income from the system may be used exceptionally in 2018 for compensation payments to settle litigation proceedings referring to Electricity Sector regulations that must be charged against General State Budgets (PGE) or the Electricity System.

These surpluses may equally be used, indefinitely, to pay off debt in the electricity system, or used as income accrued over several years in electricity system settlements. Further, the Law includes a provision that eliminates the need for a compatibility ruling for plants in the Non-mainland Territories (TNP) electricity system that have to make investments to comply with EU or Spanish regulatory requirements in order to continue operating, provided that these plants are necessary to guarantee an efficient supply.

Order TEC/1158/2018, of 29 October 2018, on the additional remuneration system for certain facilities in Non-mainland Territories (TNP) Electricity Systems

Pursuant to the introduction of Law 6/2018, of 3 July 2018, and in accordance with the power requirements for each non-mainland system determined by reports from the system operator, Order TEC/1158/2018, of 29 October 2018, was published in the Official State Gazette. The same envisages establishing an additional remuneration system for certain facilities in Gran Canaria, Tenerife and Menorca, based on the investments that must be implemented in order to comply with applicable environmental regulations (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

Royal Decree 1048/2018, of 24 August 2018, on the electricity system shortfall of 2013

On 1 September 2018, Royal Decree 1048/2018, of 24 August 2018, was published in the Official State Gazette (BOE), amending the procedure for calculating the interest to be recognised for financing the electricity system deficit for 2013, so that said interest will be established from the moment that the corresponding contributions are made by agents and not just from 1 January of the following year. The total amount payable to the agents that financed the 2013 deficit is Euros 15 million, of which Euros 7 million correspond to ENDESA. The Royal Decree establishes that this methodology will also be applied in the event of any future shortfalls (see Section 2.3.3. Net financial profit/(loss) in this Consolidated Management Report).

Royal Decree Law 15/2018, of 5 October 2018, on urgent measures for energy transition and consumer protection

On 5 October 2018, the Council of Ministers approved Royal Decree Law 15/2018, on urgent measures for the energy transition and consumer protection, published in the Official State Gazette (BOE) on 6 October 2018. This Royal Decree Law contains a series of urgent measures aimed at providing greater support for vulnerable groups and increasing consumer protection through policies that allow tariffs to be more effectively adjusted to consumption. The law also implements measures to speed up the transition to a decarbonised economy based on renewable energies, driving energy efficiency and electric mobility.

The first block of measures is designed to protect vulnerable consumer groups. The number of beneficiaries eligible for the Social Bonus has been extended to include single-parent families, and families with grade 2 or 3 de-



pendants that fall below certain income thresholds. Further, the cases in which supply may not be cut off due to payments in arrears for vulnerable consumers have been extended to include families approved by the social services with children under the age of 16, or dependants or disabled family members, where these amounts will be covered by the groups obliged to fund the Social Bonus. The maximum consumption levels with a right to a discount has also been increased. Regarding the beneficiaries of the previous Social Bonus, whose renewal period ended on 8 October 2018, the Royal Decree Law provides that those who, fulfilling the requirements of the new Social Bond, request it between 8 October 2018 and the 31 December 2018, they would be applied with effect from 8 October 2018. Finally, a thermal Social Bonus for heating is created, which will be financed by the General State Budget (PGE). This Royal Decree Law contemplates the approval in 6 months of a National Strategy to Combat Energy Poverty. In this sense, on 19 December 2018, the Ministry for the Ecological Transition has begun a public consultation in this regard.

A second group of measures aims to protect consumers and includes more flexibility in terms of contracting power, in addition to obliging suppliers to include the amount that customers would have to pay if tariffs with time constraints were applied on their bills.

A third group of measures is designed to promote self-consumption, simplifying the types available and enabling shared self-consumption, while eliminating charges and tolls for self-consumption based on renewables, cogeneration or waste. The Royal Decree Law also features measures to simplify administrative and technical processes, especially for small power facilities. In development of what is established in the Royal Decree Law, the Ministry for the Ecological Transition has begun the processing of a Royal Decree Project.

The fourth block of measures seeks to increase the penetration of renewable energies and electric mobility. Therefore, to facilitate the commissioning of the renewable power awarded in recent auctions, the access and connection licences granted prior to Law 24/2013, of 26 December 2013, governing the electricity system, which would have expired on 31 December 2018, have been extended until 31 March 2020. With regard to electric mobility, the

load manager role has been abolished to facilitate the deployment of these services.

The last block contains measures associated with fiscal aspects and System sustainability. For the last quarter of 2018 and the first quarter of 2019, the tax on the value of electricity production has been suspended and the special tax on hydrocarbons for electricity generation has been abolished. To ensure the sustainability of the electricity system, income that derives from carbon dioxide (CO₂) emissions rights auctions used to cover costs in the electricity system has been increased, and the system surplus will be used to reduce imbalances in 2018 and 2019.

Royal Decree Law 15/2018, of 5 October 2018, was approved by Spanish Parliament on 18 October 2018, having been approved for processing as a Draft Law.

Royal Decree Law 25/2018, of 21 December 2018, on urgent measures for a fair transition of coal mining and the sustainable development of the mining districts.

On 22 December 2018, this Royal Decree Law has been published in the Official State Gazette (BOE), which includes certain measures aimed at favoring a fair transition and the sustainable development of the mining districts affected by the facilities closure process. In addition, the Royal Decree Law incorporates a provision that establishes that in the year 2019, up to a maximum of Euros 1,000 million will be allocated from the proceeds from auctions of greenhouse gas emission rights to finance Electricity System costs, and up to a maximum of Euros 100 million for actions of the fair transition policy and the fight against climate change.

Order TEC/1380/2018, of 20 December 2018, establishing the conditions for subsidiaries to be granted for renewable energy facilities

Order TEC/1380/2018, of 20 December 2018, was published in the Official State Gazette (BOE) on 25 December 2018. Said Order establishes the conditions for support to be granted for investment in wind and solar power facilities in Non-mainland Territories (TNP) Electricity Systems, co-financed with funds from the European Regional Development Fund (ERDF).

On 27 December 2018, the Institute for Energy Diversification and Savings (IDAE) passed a resolution, convening auctions of subsidies for investment in wind facilities in the Canary Islands, with an allocation of Euros 80 million and maximum power of 217 MW.

Royal Decree Law 20/2018, of 7 December 2018, on urgent measures to drive the economic competitiveness of the industry and commerce sector in Spain

This Royal Decree Law, published in the Official State Gazette on 8 December, seeks to drive the competitiveness of the industrial sector via action to improve labour productivity, cut energy costs and bolster industrial security. Among other aspects, the Royal Decree Law introduces the concept of closed electricity distribution networks, which are already envisaged in EU regulations, and announced the preparation of a statute for electro-intensive industrial consumers, adapted to their specific requirements. The regulation likewise envisages extending the lives of certain high efficiency cogeneration facilities for 2 years.

Royal Decree Law 1/2019, of 11 January 2019, on urgent measures to adjust the duties of the Spanish Markets and Competition Commission (CNMC) to the requirements of EU law in relation to Directives 2009/72/CE and 2009/73/CE of the European Parliament and Council, of 13 July 2009, on common standards for the internal electricity and natural gas market

On 12 January 2019, the Official State Gazette (BOE) published this Royal Decree Law, intended to amend the duties of the Spanish Markets and Competition Commission (CNMC) to comply with EU legislation, following requests filed by EU authorities.

According to this Royal Decree Law, the Spanish Markets and Competition Commission (CNMC) will be responsible for approving, via circulars, aspects such as the structure, methodology and specific values of access tariffs for natural gas and electricity transmission and distribution networks, and for liquefied natural gas (LNG) plants; the methodology and parameters for establishing remuneration for the transmission and distribution of gas and electricity, liquefied natural gas plants (LNG), the gas System operator, and remuneration on transmission and distribution within the maximum limit established by the government.

The Ministry for the Ecological Transition will approve a series of energy policy guidelines that the Spanish Markets and Competition Commission (CNMC) will have to take into consideration, which will cover aspects such as supply security, the economic and financial sustainability of the System, supply independence, air quality, efforts to combat climate change, demand management, selection of future technologies and rational use of energy. The Ministry for the Ecological Transition will have one month to approve the circulars of the Spanish Markets and Competition Commission (CNMC) concerning energy policy, or



that have an impact on tariffs, remuneration on regulated activities, access and connection conditions, and the rules for operating the Electricity and Gas System. In the event of any discrepancy, a Cooperation Committee will work to reach an understanding.

In any case, the new duties of the Spanish Markets and Competition Commission (CNMC) will be applicable as of 1 January 2020. Furthermore, any procedures begun prior to this Royal Decree Law coming into force, as well as any procedure that, regardless of when it was initiated, refers to years prior to 2019, will be substantiated pursuant to previous regulations.

The Royal Decree Law likewise amends certain aspects of Law 24/2013, of 26 December 2013, on the electricity industry. Regarding the financial rate of remuneration on transmission and distribution, which by virtue of the Royal Decree Law will be established by the Spanish Markets and Competition Commission (CNMC), the government will set in law a maximum threshold for the same, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory period, plus a spread to be established for each regulatory period. If at the start of the new period said

maximum threshold has not been established, the maximum threshold corresponding to the previous period will be extended, or failing this, the rate of remuneration from the previous period will be used.

As for generation operations adhering to the additional remuneration system in Non-mainland Territories (TNP), the rate of financial remuneration will be set by the government. This rate may be modified before the start of each regulatory period, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory period, plus a spread to be established under law for each regulatory period. If at the start of a new regulatory period said rate of financial remuneration has not been established, that of the previous regulatory period will be deemed to be extended.

Finally, regarding facilities producing electricity from renewable energy sources, high efficiency cogeneration, and waste, using specific remuneration systems, in the review corresponding to each regulatory period the value on which the reasonable rate of return is based over the remaining regulatory life of standard facilities may be amended, and will be established under law.

4. Liquidity and capital resources

4.1. Financial management

Within the framework of an efficient cost management and optimisation policy, the finance function in Spain is centralised in ENDESA, S.A.

At the date of approval in 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 financing structure: obtaining medium/long-term funding that enables it to adjust its maturity calendar to the cash-flow generation capacity 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 overall cost of debt. This financing is obtained through bank credit lines with leading financial

institutions or through the issue of Euro Commercial Paper (ECP).

ENDESA also carries out transactions with ENEL Group companies in which the applicable transfer pricing regulations are followed.

Financial position

Sovereign debt interest rates declined in the major European countries during 2018, with the exception of Italy where rates increased. The yield on the Spanish 10-year bond declined from 1.56% at the start of the year to 1.42% at the end of 2018, as did the yield on the German bond of the same term, which was down 18 basis points to 0.24%. As a result, country risk for Spain (the spread against the German 10-year bond) at the end of the reporting period 2018 stood at 118 basis points, a similar level to the end of the reporting period 2017. In other periphery Eurozone countries, the Portuguese risk premium stood at 148 basis points, in line with 2017, while the Italian risk premium widened to 250 basis points, from 158 b.p. at year-end 2017.

The ECB kept interest rates in 2018 at the historic low of 0% and ended the debt purchasing programme, known as Quantitative Easing (QE), in December.

In 2018, euro long-term interest rates (10-year swap) fell from 0.89% at the beginning of the year to 0.81% by year-end. The short-term interest rate (3-month Euribor) decli-





ned, ending the year at -0.31%. The long-term interest rate on the US dollar (USD) (10-year swap) rose in 2018 from 2.40% to 2.71%, while the 3-month interest rate on the US dollar (USD) increased in 2018 from 1.69% to 2.81%.

In 2018 the euro depreciated 4.5% compared to the US dollar (USD), causing the euro/US dollar (EUR/USD) exchange rate to drop from 1.20 at the beginning of the year to 1.15 at year-end.

Financial debt

As of 31 December 2018, ENDESA had net financial debt of Euros 5,770 million, an increase of Euros 785 million (+15.7%) compared to debt as per 31 December 2017.

The reconciliation of ENDESA's gross and net financial debt at 31 December 2018 and 2017 is as follows:

Millions of Euros				
	Reconciliation of financial debt			
	31 December 2018	31 December 2017	Difference	% Var
Non-current interest-bearing loans and borrowings	4,975	4,414	561	12.7
Current interest-bearing loans and borrowings	1,046	978	68	7.0
Gross financial debt¹	6,021	5,392	629	11.7
Cash and cash equivalents	(244)	(399)	155	(38.8)
Derivatives recognised as financial assets	(7)	(8)	1	(12.5)
Net financial debt	5,770	4,985	785	15.7

¹ At 31 December 2018, this includes Euros 6 million corresponding to financial derivatives recognised under financial liabilities (Euros 12 million at 31 December 2017).

For the purposes of assessing net financial debt in 2018, bear in mind that on 2 January 2018 ENDESA, S.A. paid shareholders an interim dividend against 2017 profits of Euros 0.70 per share, entailing a disbursement of Euros 741 million, and on 2 July 2018 it paid an additional final dividend against 2017 profits of Euros 0.682 per share gross,

entailing a disbursement of Euros 722 million (see Section 4.4 Cash Flows and 13.2 Dividend Policy in this Consolidated Management Report).

The structure of ENDESA's gross financial debt at 31 December 2018 and 2017, was as follows:

	Structure of gross financial debt			
	31 December 2018	31 December 2017	Difference	% Var
Euro	6,021	5,392	629	11.7
Total	6,021	5,392	629	11.7
Fixed rate	3,550	3,611	(61)	(1.7)
Floating rate	2,471	1,781	690	38.7
Total	6,021	5,392	629	11.7
Average life (years) ¹	5.3	6.1	—	—
Average cost (%) ²	1.9	2.1	—	—

¹ Average 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 2018, 59% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 41% accrued interest at floating rates. At said 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 2018.

Main financial transactions

Within the framework of the financial transaction (ENDESA Network Modernisation) concluded with the European Investment Bank (EIB) in 2017, on 29 May 2018 a drawdown was made of Euros 500 million at a variable rate and maturing in 12 years, repayable as of 2022 (see Section 4.4 Cash Flows in this Consolidated Management Report).

In financial year 2018, the extension of the credit lines maturing in March 2020 (Euros 160 million) and March 2021 (Euros 1,825 million) was signed with different financial entities.

During fiscal year 2018, bank financing was also canceled, Project Finance format, of certain subsidiaries of ENEL Green Power Spain, S.L.U. (EGPE) for a total amount of Euros 160 million (see Section 4.4 Cash Flows of this Consolidated Management Report). This financing was pre-existing to the acquisition of these companies and has been

refinanced with corporate resources under more competitive conditions.

On 21 December 2018, it was subscribed a financing, pending disbursement at the date of formulation of this Consolidated Management Report, with the European Investment Bank (EIB) amounting to Euros 335 million, with a maturity of 15 years and a three-year grace period.

In 2018, ENDESA maintained the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., and the outstanding balance at 31 December 2018 was Euros 905 million, renewable with the backing of irrevocable bank credit lines.

On 28 December 2018, the non-renewal of the uncommitted intercompany credit line signed with ENEL Finance International N.V., for Euros 1,500 million, was confirmed.

Liquidity

As of 31 December 2018, ENDESA's liquidity stood at Euros 3,040 million (Euros 3,495 million at 31 December 2017) as detailed below:



Millions of Euros

	Liquidity			
	31 December 2018	31 December 2017	Difference	% Var
Cash and cash equivalents	244	399	(155)	(38.8)
Unconditional availability in lines of credit ¹	2,796	3,096	(300)	(9.7)
Total	3,040	3,495	(455)	(13.0)
Coverage of debt maturities (number of months) ²	26	29	(3)	(10.3)

¹ At 31 December 2018 and 2017, Euros 1.000 million were accounted for by the committed and irrevocable credit line 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 2018.

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 2018.

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 2018 and 2017 are as follows:

Millions of Euros

	Leverage ratio ¹	
	31 December 2018	31 December 2017
Net financial debt:	5,770	4,985
Non-current interest-bearing loans and borrowings	4,975	4,414
Current interest-bearing loans and borrowings	1,046	978
Cash and cash equivalents	(244)	(399)
Financial Derivatives recognised as financial assets	(7)	(8)
Equity:	9,181	9,233
Of the Parent	9,037	9,096
Of non-controlling interests	144	137
Leverage (%)	62.85	53.99

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 2018.

Information on the investments plan and shareholder remuneration is provided, respectively, in Sections 6.3. Main Financial Indicators and 13.2. Dividend Policy in this Consolidated Management Report.

4.3. Credit rating management

In 2018, volatility returned to fixed income yields and prices. In international sovereign debt markets, a significant gulf opened between US 10-year yields and their European counterparts. In Eurozone bond markets the strain mainly focused on Italian bonds, whose risk premium against the 10-year benchmark German bonds came to be above 300 basis points, closing the year at 250 points basic.

The Spanish risk premium, which compares Spanish and German bonds, closed the year at 118 basis points, 4 points more than at the start of 2018. The annual high was

observed on 29 May 2018, at 134.4 basis points, triggered by political instability following a motion of censure, which led to a changeover of government. There was a subsequent recovery, dipping to below 100 basis points in the following days.

The major rating agencies endorsed this relative calm. On 19 January 2018, the Fitch rating agency upgraded the sovereign rating for Spain to A-, with a stable outlook. On 23 March 2018 Standard & Poor's likewise improved the sovereign rating for Spain to A-/A-2, with positive outlook. While Moody's lifted the sovereign rating for Spain to Baa1 with stable outlook.

Electricity sector fundamentals remained healthy both in terms of demand stability and tariff sufficiency.

As for ENDESA in 2018, on 19 February 2018 the Fitch rating agency confirmed its rating of BBB+ with a stable outlook. While on 1 August 2018 the Moody's agency restated its Baa2 rating, likewise with stable outlook.

Subsequently, on 11 February 2019, Fitch Ratings raised ENDESA's long-term credit rating from BBB+ to A- level with a stable outlook, maintaining ENDESA's short-term credit rating in F2.

Developments regarding ENDESA's credit ratings is as follows:

Millions of Euros						
	Credit rating					
	31 December 2018			31 December 2017 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	A-	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, based on the methods employed by rating agencies, and, as of 31 December 2018, has been classified as "investment grade" by all the rating agencies.

ENDESA works to maintain its investment grade credit rating in order to efficiently access money markets and bank financing, and to obtain preferential terms from its main suppliers.

4.4. Cash flows

At 31 December 2018 cash and cash equivalents stood at Euros 244 million (Euros 399 million at 31 December 2017) (see Section 4.1. Financial Management in this Consolidated Management Report).

In 2018 and 2017 ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros				
	Statement of cash flows			
	2018	2017	Difference	% Var
Net cash flows from operating activities	2,420	2,438	(18)	(0.7)
Net cash flows used in investing activities	(1,627)	(1,115)	(512)	45.9
Net cash flows used in financing activities	(948)	(1,342)	394	(29.4)

In 2018, net cash flows from operating activities (Euros 2,420 million) and the Euros 155 million decline in cash and cash equivalents helped cover the net investment required to conduct ENDESA's businesses (Euros 1,627 million), in addition to net cash flows from financing activities (Euros 948 million).

Information on ENDESA's consolidated statements of cash flows is set out in Note 33 to the Consolidated Financial Statements for the year ended 31 December 2018.

Net cash flows from operating activities

In 2018, net cash flows from operating activities amounted to Euros 2,420 million (Euros 2,438 million in 2017), with the same being as follows:

Millions of Euros

	2018	2017	Difference	% Var
Profit before tax and non-controlling interests	1,818	1,900	(82)	(4.3)
Adjustments for:	1,910	1,579	331	21.0
Depreciation and amortisation, and impairment losses	1,708	1,511	197	13.0
Other adjustments of the Result (net)	202	68	134	197.1
Changes in working capital:	(653)	(370)	(283)	76.5
Trade and other receivables	298	(387)	685	(177.0)
Inventories	(361)	(241)	(120)	49.8
Current financial assets	(285)	(554)	269	(48.6)
Trade payables and other current liabilities	(305)	812	(1,117)	(137.6)
Other cash flows from/(used in) operating activities:	(655)	(671)	16	(2.4)
Interest received	29	44	(15)	(34.1)
Dividends received	30	27	3	11.1
Interest paid	(142)	(134)	(8)	6.0
Income tax paid	(326)	(350)	24	(6.9)
Other proceeds from/(payments for) operating activities ¹	(246)	(258)	12	(4.7)
Net cash flows from operating activities	2,420	2,438	(18)	(0.7)

¹ Including provisions payments.

The variations in the different items determining the net cash flows from operating activities include:

- Higher profit before tax and non-controlling interests net of depreciation and amortisation and other adjustments for the year (Euros 249 million).
- Changes in working capital between the two years amounting to Euros 283 million, mainly as a result of an increase in payments to commercial creditors amounting to Euros 1,117 million, a positive trend from trade and other receivables amounting to Euros 685 million, and higher receipts linked to the extra-costs of Non-mainland Territories (TNP) generation, amounting to Euros 397 million (see Notes 4, 13, 19.1.1 and 23 to the Consolidated Financial Sta-

tements for the year ended 31 December 2018 and Section 3. Regulatory Framework in this Consolidated Management Report).

In 2018, the company also continued its active policy concerning the management of current assets and current liabilities, focused on, among other aspects, improving processes, accounts receivable factoring and agreements to extend payment periods with suppliers (see Notes 13 and 23 to the Consolidated Financial Statements corresponding to the year ending 31 December 2018).

At 31 December 2018 and 2017, working capital broke down as follows:





Millions of Euros

	Working capital	
	31 December 2018	31 December 2017
Current assets¹	5,410	5,131
Inventories ²	1,473	1,267
Trade and other receivables ³	2,955	3,100
Current financial assets ⁴	982 ⁵	764 ⁶
Current Liabilities⁷	6,648	6,557
Current provisions ⁸	571	425
Trade payables and other current liabilities ⁹	6,077 ¹⁰	6,132 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 2018.

³ See Note 13 to the Consolidated Financial Statements for the year ended 31 December 2018.

⁴ See Note 19 to the Consolidated Financial Statements for the year ended 31 December 2018.

⁵ Includes Euros 236 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 83 million linked to remuneration for the electricity distribution activity and Euros 609 million corresponding to the compensations for the extra-costs of Non-mainland Territories generation (TNP).

⁶ Includes Euros 222 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 70 million linked to remuneration for the electricity distribution activity and Euros 304 million corresponding to the compensations for the extra-costs of Non-mainland Territories generation (TNP).

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 2018.

⁹ See Note 23 to the Consolidated Financial Statements for the year ended 31 December 2018.

¹⁰ Includes the interim dividend for 2018 results, amounting to Euros 741 million, paid 2 January 2019 (see Note 15.1.9 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 13.2. Dividend policy in this Consolidated Management Report).

¹¹ Includes the interim dividend for 2017 results, amounting to Euros 741 million, paid 2 January 2018 (see Notes 15.1.9 and 15.1.11 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 13.2. Dividend policy in this Consolidated Management Report).

Net cash flows used in investing activities

During 2018, net cash flows used in investing activities amounted to Euros 1,627 million (Euros 1,115 million in 2017) and include, among other aspects:

→ The net cash flows used in investing activities included the acquisition of property, plant and equipment and intangible assets:

Millions of Euros

	2018	2017
Acquisitions of property, plant and equipment and intangible assets	(1,425)	(1,078)
Acquisitions of property, plant and equipment	(1,203)	(978)
Acquisitions of intangible assets	(231)	(133)
Facilities transferred from customers	74	101
Suppliers of property, plant and equipment	(65)	(68)
Proceeds from sales of property, plant and equipment and intangible assets	8	15
Grants and other deferred income	86	92
Total	(1,331)	(971)

- The payments of the investments and/or collections of the disposals in shareholdings in Group Companies as detailed below:

Millions of Euros			
	Sections	2018	2017
Investments in shareholdings in Group companies		(136)	(2)
Corporate transactions related to capacity awarded in renewable power auctions	2.5	(5)	(1)
Parques Eólicos Gestinver, S.L.U.	2.5	(45)	—
Eólica del Principado, S.A.U.	2.5	(1)	—
Empresa de Alumbrado Eléctrico de Ceuta, S.A.	2.5	(83)	—
Front Marítim del Besòs, S.L.	2.5	(1)	—
Eléctrica del Ebro, S.A.U.		(1)	—
Eléctrica de Jafre, S.A.		—	(1)
Disposals of shareholdings in group companies		20	16
Nueva Marina Real Estate, S.L. ¹		20	—
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.		—	16
Total		(116)	14

¹ Sale formalised in 2017.

Net cash flows used in financing activities

During 2018, net cash flows used in financing activities amounted to Euros 948 million (Euros 1,342 million in 2017) and mainly include the following aspects:

- Cash flows from equity instruments:

Millions of Euros			
		2018	2017
Capital reduction at Eólica Valle del Ebro, S.A.		(1)	—
Capital contribution by Tauste Energía Distribuida, S.L.		3	—
Capital contribution by Bosa del Ebro, S.L.		3	—
Acquisition of non-controlling interests in Productor Regional de Energía Renovable, S.A.U. and Productor Regional de Energías Renovables III, S.A.U.		—	(3)
Total		5	(3)





→ Proceeds from the following non-current borrowings:

Millions of Euros			
	Note	2018	2017
Proceeds from the European Investment Bank (EIB)	4.1	500	300
Proceeds from credit lines		206	—
Other		15	15
Total		721	315

→ Repayments of the following non-current borrowings:

Millions of Euros			
	Note	2018	2017
Repayment of bank loan of Productor Regional de Energía Renovable, S.A.U.	4.1	(44)	—
Repayment of Credit Lines		(12)	—
Repayment of Natixis loans		—	(21)
Repayment of bonds issued by International ENDESA B.V.		—	(20)
Other		—	(33)
Total		(56)	(74)

→ Repayments and proceeds from the following current borrowings:

Millions of Euros			
	Sections	2018	2017
Repayments			
Repayments of ECP issued by International ENDESA B.V.		(7,406)	(5,604)
Repayments of ENEL Finance B.V. credit lines		(6,600)	(2,150)
Repayment of Parque Eólico Gestinver, S.L.U. bank loan	4.1	(116)	—
Repayment of Instituto de Crédito Oficial (ICO) loan		—	(45)
Repayments of bonds issued by ENDESA Capital, S.A.U.		—	(36)
Repayment of European Investment Bank (EIB) loan		—	(13)
Other		(95)	(121)
Proceeds			
Emissions of ECP Issued by International ENDESA B.V.		7,422	5,561
Proceeds from ENEL Finance B.V. credit lines		6,600	2,150
Other		49	93
Total		(146)	(165)

→ Payment of the following dividends:

Millions of Euros			
	Sections	2018	2017
Dividends of the Parent paid	13.2	(1,463)	(1,411)
Dividends to non-controlling interests paid ¹		(9)	(4)
Total		(1,472)	(1,415)

¹ Corresponding to companies of ENEL Green Power España, S.L.U. (EGPE).

4.5. Investments

In 2018 ENDESA's gross investments totalled Euros 1,470 million (Euros 1,175 million in 2017), as follows:

Millions of Euros			
	Investments ¹		
	2018	2017	% Var
Generation and supply	585	358	63.4
Distribution	609	610	(0.2)
Other	9	10	(10.0)
Total Property, Plant and Equipment²	1,203	978	23.0
Generation and supply	140	48	191.7
Distribution	61	47	29.8
Other	30	38	(21.1)
Total Intangible Assets³	231	133	73.7
Financial investments	36	64	(43.8)
Total Gross Investments	1,470	1,175	25.1
Total Net Investments⁴	1,310	982	33.4

¹ Does not include business combinations made during the year (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

² See Note 6.1 to the Consolidated Financial Statements for the year ended 31 December 2018.

³ See Note 8.1 to the Consolidated Financial Statements for the year ended 31 December 2018.

⁴ Net investments = Gross investments - Capital grants and transferred facilities.

Investments in Total Property, Plant and Equipment

Gross investments in generation during 2018 related largely to investments into the construction of the wind and photovoltaic power capacity awarded in auctions during 2017, amounting to Euros 191 million, of which Euros 127 million correspond to the companies acquired and incorporated in relation to the renewable auctions (see Notes 4 and 5.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 2.5. Consolidation Scope in this Consolidated Management Report).

Investments have also been made in plants that were already operational on 31 December 2017, including an investment of Euros 3 million in the Thermal Plant Litoral of Almería and the Euros 43 million investment in the Thermal Plant of As Pontes, bringing the same into line with the Industrial Emissions Directive (IED).

Gross investments in supply correspond mainly to the development of activity related to new products and services amounting to Euros 17 million.

Gross investments in distribution are related with grid extensions and expenditure aimed at optimising the grid to ensure greater efficiency and service quality. It also included investments for the widespread installation of remote management smart meters and their operating systems.

Investment in intangible assets

Gross investments in intangible assets in 2018 correspond to IT applications and ongoing investments in ICT activities, for the sum of Euros 155 million, among which are those associated with the strategic objective of digitalisation (see Section 6. Outlook of this Consolidated Management Report), and the activation of incremental costs incurred due





to the acquisition of contracts with customers for the sum of Euros 70 million (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

Financial investments

The gross investments in 2018 include, primarily, guarantees and deposits amounting to Euros 23 million.

4.6. Contractual obligations and off-balance sheet obligations

Information concerning future purchase commitments is provided in Notes 6, 8, 12 and 13 to the Consolidated Financial Statements for the year ended 31 December 2018, broken down as follows:

Millions of Euros		
	Future purchase commitments	
	31 December 2018	31 December 2017
Property, plant and equipment	858	364
Intangible assets	29	7
Financial assets	—	—
Provision of Services and Rights of Use	227	105
Purchases of fuel stocks and others	17,246	18,739
Purchases of fuel stocks	17,105	18,656
Electricity purchases	39	17
Purchases of carbon dioxide (CO ₂) emission rights, Certified Emission Reductions CERs and ERUs	102	66
Total	18,360	19,215

ENDESA has no special purpose entities, understood as entities that ENDESA, even when not holding a controlling interest, effectively controls, meaning 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 end of the reporting period is provided in Note 39 to the Consolidated Financial Statements for the year ended 31 December 2018.

6. Outlook

6.1. Energy policy

In 2018 ENDESA secured further progress in its commitment to developing a more sustainable, dynamic and efficient business model, coherent with its strategy of spearheading the energy transition in Spain, and capitalising on any new opportunities that may arise as a result of this significant challenge.

The European Union has adopted a robust commitment to combating climate change, targeting an 80% reduction in carbon dioxide (CO₂) emissions by 2050 compared to 1990.

Specific and highly ambitious goals in terms of energy policy have been set out to secure this objective, to which all member states are committed, and which were recently revised up.

The manner of transposing these objectives to Spanish law remains subject to debate, via the Climate Change Draft Law. If approved, the same would commit the country to even more ambitious environmental targets. The proposal envisages a target of cutting greenhouse gas (GHG) emissions by 20% compared to 1990 levels by 2030, with renewable energy representing 35% of total power usage, up from approximately 17% at present, and promoting



energy efficiency by cutting end energy consumption by 35% against the baseline scenario established in 2007.

ENDESA estimates that compliance with decarbonisation targets in Spain will require major challenges to be addressed between 2018 and 2030:

- Driving the electrification of end energy demand from the current 24% to approximately 33% in 2030. Electricity is between 3 and 5 times more efficient than fossil fuels in transport and climate control, meaning the electrification of end energy demand would help to drive progress towards compliance with the 3 environmental objectives (cutting carbon dioxide emissions (CO₂), supporting the penetration of renewable energies and greater energy efficiency).
- Encouraging a shift in the electricity generation mix towards around 70% renewables-based power, requiring a ramp-up of renewable power capacity estimated at between 55 GW and 60 GW.
- Bolstering energy efficiency measures.

However, securing these objectives will require the support of all energy consuming sectors:

- In road transport, around 30% of total kilometres travelled by light vehicles would have to be accounted for by battery electric vehicles (BEV) or plug-in hybrid electric vehicles (PHEV) by 2030, thus cutting energy consumption and sector emissions.
- In the residential and services sector, the aim is to increase end consumption of renewable energy and encourage the use of heat pumps for heating. Support will be required for rehabilitating buildings, where such measures would be effective.
- In the industrial sector, measures will be required to bolster use of renewable energy, as well as electrification processes where technically viable.

In short, decarbonisation trends are set to significantly drive up electricity demand and radically overhaul the electri-

city production mix, with renewable energies accounting for a significant proportion. Some key initiatives to consider in the electricity sector include:

- Introducing new smart tariffs to encourage greater demand during off-peak hours, helping to reduce peak demand.
- Maintaining sufficient thermal generation capacity to guarantee supply security going forward, as said technologies provide reliable reserve capacity at a competitive cost. It is important to mention here the role of nuclear generation, which is emissions-free and provides baseload capacity, driving down wholesale market prices and underpinning System stability.
- Introducing capacity market mechanisms to guarantee and strengthen future supply security, while ensuring the required profitability on equipment.

Lastly, grid automation and digitalisation will be a key factor to help drive the electrification of demand.

With regards to transmission and distribution grids, it is estimated that between Euros 29,000 million and Euros 34,000 million in investments will be required through to 2030 in order to establish a smart grid to provide the foundations for transforming the energy model. These investments will chiefly be made in the modernisation and digitalisation of grids assets, the electrification of energy consumption and connecting emissions-free power generation, while attractive regulation must also be in place for network operators.

6.2. Strategic pillars

Taking these trends into consideration, as well as the new challenges facing the industry, ENDESA has fully updated its Strategic Plan in line with the new energy paradigms, seeking to capitalise on new growth opportunities associated with the energy transition and further consolidate its current leading position. This Plan is based on the following priorities:

- 1) Decarbonisation of generation facilities, maintaining security of supply and driving very significant renewable energy growth.
- 2) Development and operation of more efficient grids, seeking to establish the company as the pre-eminent digital grid operator in the industry.
- 3) Management focused on customer value, consolidating the electricity, gas and ENDESA X businesses via innovation and digitalisation.
- 4) Investment in digitalisation, which represents the key driver for energy efficiency.

Further, all the objectives set out in ENDESA's strategic plan are fully in line with the sustainable development commitments of its Sustainability Plan (see Section 8. Sustainability Policy in this Consolidated Management Report).

1) Decarbonisation of generation facilities, maintaining security of supply

ENDESA's commitment to gradually reducing emissions to achieve the final zero emissions targets in 2050 is reflected in the following strategic lines:

- Significant growth in programmed renewable energy investment in the 2018-2021 period, amounting to Euros 2,000 million, doubling the investments envisaged in the previous plan. In 2021, ENDESA will have expanded its installed renewable capacity by nearly 30%. It aims to bring the 879 MW awarded in 2017 power capacity auctions online before 2019 and add a further 1 GW through to 2021 (see Section 3. Regulatory Framework in this Consolidated Management Report).
- This commitment to renewable energies will propel the decarbonisation of ENDESA's generation mix, driving forward the energy transition.

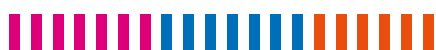
- The long-term operation of nuclear plants safely and cost efficiently, in order to ensure the security of supply.
- Environmental updating and improved availability of certain coal plants, as required to maintain the equilibrium of the mainland electricity system, preventing an increase in costs, rising emissions and higher energy prices. Likewise, these power plants will be made more efficient via the development of new storage technologies.
- Investment in Non-mainland Territories generation (TNP) assets to maintain the asset base and ensure supply security, as well as launching new storage projects in the Canary Islands.

2) Development and operation of more efficient grids

Development of the electricity grid is likewise a vital pillar of the ENDESA strategy. Projected investment, driven by the electrification of demand and the inclusion of renewable energies, aims to improve grid quality and efficiency, reducing operating costs, and ramping up the value of assets via investments in smart grids and the pursuit of excellence.

ENDESA aspires to establish itself as a digital operator, projecting investments of Euros 1,000 million during the 2018-2021 period in grid automation and modernisation. This amount represents approximately 53% of the Euros 1,900 million total investment envisaged for this business in the plan.

These digitalisation initiatives will help to improve grid reliability and service quality. In particular, ENDESA intends to cut interruptions by 26%, grid losses by 0.4 percentage points, and operating costs per customer by 9% in 3 years.





3) Management focused on customer value, to consolidate the electricity and gas business via innovation and digitalisation

A customer-centric focus will require the following measures to be implemented:

- Consolidation of ENDESA's current position in the Spanish gas and electricity supply market, via active management based on customer value in the Business-to-Consumer (B2C) and Business-to-Business (B2B) segments.
- Securing greater insight into ENDESA's customer base via the development of analytics capabilities, seeking to maintain and expand business margins.
- Implementation of new commercial strategies to support customer retention both in the electricity and gas businesses, while custom solutions will be developed for Business-to-Business (B2B) clients, with a view to attracting more sophisticated client profiles
- Bolstering operating efficiency and excellence in relations with the customer base, with a growing focus on process digitalisation and automation
- ENDESA X will support the customer-centric approach via the development of innovative, efficient and sophisticated products and services in 4 areas: e-Home, e-Industries, e-City and e-Mobility.

With regards to mobility, Endesa has unveiled a plan to encourage electric mobility, with the aim of rolling out 41,000 public and private recharging points across Spanish territory by 2021.

4) Investment in digitalisation, which represents the key driver for energy efficiency

ENDESA is heavily committed to digitalisation and the constant pursuit of efficiency. This Plan represents a significant step forward in implementation of the Digitalisation Plan, on which the company has been working in recent years. To this end, ENDESA intends to deploy digitalisation investment programmes across all businesses, amounting to Euros 1,300 million between 2018 and 2021, which should secure estimated cost savings of Euros 260 million by 2021. The largest such investments will come in Distribution, with Euros 1,000 million invested in digitalising said business, accounting for approximately 80% of the investments envisaged for the period.

The cost savings secured thanks to digitalisation will come chiefly via:

- Smart grids, allowing customers to play an active role in the energy market.
- The automation of construction processes, as is the case in renewable energies, significantly reducing general costs, neutralising the risk of cost overruns, and leading to stronger value creation and shorter development times.
- Thermal capacity, driving evolution towards the Power Station of the Future, with a substantial improvement in terms of flexibility and asset reliability.

In terms of strategic efficiency targets, ENDESA remains heavily committed to a constant pursuit of savings. The main plans deployed to this end are as follows:

- **Generation:** sustained development of improvement programmes across all technologies and the optimisation of fuel management. In the specific case of renewable energies, securing cost synergies thanks to the unification of operation and maintenance management across all plants, among other measures.

→ **Distribution:** digitalisation initiatives, together with the improved asset performance and better service quality, helping to drive efficiency and cut unitary costs per customer by 22% compared to 2015 levels.

→ **Supply:** digitalisation initiatives will help to significantly decrease the cost of serving customers, which will be down 22% against 2015 levels, while efforts to cut customer acquisition costs will lead to an improved churn rate for our customer portfolio.

6.3. Main financial indicators

The Industrial Plan approved by the Board of ENDESA, S.A. on 14 November 2018 contemplates an investment target, net of subsidies and assets assigned by customers, of Euros 6,400 million between 2018 and 2021, broken down as follows:

→ Investments in asset development (52%).

→ Investments in asset maintenance (37%).

→ Investments in customers (11%).

The breakdown of the investment plan by business lines is as follows:

→ **Generation** (59%), with investment in renewables (31%), mainland investment (19%) and Non-mainland Territories (TNP) investment (9%). Investment in renewable generation will focus on developing approximately 1.9 GW of new power. Most of this will be accounted for by recurring maintenance investments and selective environmental investments at imported

coal-fired plants to comply with EU emissions legislation. Non-mainland investment contemplates maintenance, environmental protection and selective capacity substitutions.

→ **Distribution** (30%), with investment in maintenance and growth to drive grid automation and digitalisation, including significant projects such as the Quality Plan and Grid Remote Control.

→ **Supply** (11%), with investment in developing new IT tools to foster customer digitalisation and the development of other products and services.

On the basis of the strategic pillars described above, and in due consideration of estimates for economic indicators, as well as 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 as follows:

→ EBITDA: Euros 4,000 million in 2021.

→ Net profit: Euros 1,800 million in 2021.

→ Net cash flows from operating activities, which are expected to total Euros 8,400 million in 2019-2021, 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 as 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 management and control policy

The Risk Management and Control Policy involves guiding and directing all 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 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 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 with regard to risk and appropriate use of capital.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee (CAC) of the Board of Direc-

tors of ENDESA, S.A. It is comprised of the parties responsible for each of the Company's business lines and corporate areas, and the following functions are assigned to it:

- Regularly providing the ENDESA, S.A. Board of Directors with an integrated view of current and foreseeable risk exposure.
- Ensuring that senior management participates in strategic risk management and control decisions.
- Guaranteeing 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.
- Ensuring that the risk control system operates as it should, and, in particular, that it identifies, manages, and adequately quantifies all major risks.
- Actively participating in drawing up the risk strategy and in important decisions regarding management of the same.
- Ensuring that the risk management and control systems appropriately mitigate risk as part of the risk management and control policy.

The general guidelines for the Risk Management and Control Policy are developed and supplemented by other cor-

porate 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 Energy Sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk officers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising the 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 the aim is to adequately control and manage those risks:

→ **Identification:** the goal is to generate an exhaustive list of risks (complete coverage) based on events that could prevent, impair or delay the meeting of targets through the coordinated and efficient participation of all levels of the Company. The identification should include risks whether their origin is under the control of the organisation or whether it is due to unmanageable external causes. All causes of risk and significant consequences with economic and/or reputational impact for ENDESA are considered in the risk identification process. Each risk identified must be characterised according to the risk factor that originates it and the type of risk.

→ **Measurement:** the objective is to obtain the parameters that can be used to measure, with homogeneous methodologies, the economic and reputational impact, under the different time horizons, of all the risks that must be quantified so that they can be subsequently prioritised. This assessment includes both the valuation of scenarios and the estimation of potential loss from the evaluation of impact and probability distributions.

The objective of the 2 previous phases is to obtain a final report, the Risk Map, with the prioritised detail of

each risk identified and assessed in descriptive cards, graphs and tables. This will be the result of the evaluation process, and will provide a representation of the Company's situation at risk with the prioritisation of the assessed risks.

→ **Control and monitoring:** the objective of this phase is to monitor risks and relevant management events. To this end, indicators are identified to monitor the change in risk comparable to the defined risk appetite. These indicators are a management metric that allows to give an alarm signal to anticipate the risk and that are reported periodically in time.

→ **Management:** its objective is to carry out actions aimed at adapting the risk levels assumed at each ENDESA level to the risk tolerance and readiness established.

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 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.

The heads of risk management present this risk map, whose included risks are aligned with the strategy defined by the Company and which cover the different time horizons, and the table of indicators for periodic monitoring, to the governing bodies.

In addition, in view of the growing interest in the management and control of the risks to which companies are exposed and given how complicated it is to identify them from a comprehensive point of view, employees must take part at all levels in 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 2018.

The Annual Corporate Governance Report, which describes ENDESA's risk management and control systems, forms an integral part in this Consolidated Management Report (see Section 15. Annual Corporate Governance Report required by Article 538 of Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Spanish Corporate Enterprises Act in this Consolidated Management Report).

7.2. ENDESA's criminal and anti-bribery risk prevention model

ENDESA is aware that the balanced fulfilment of its corporate responsibilities must be accompanied by a constant quest for excellence in the areas of business ethics in all its decision-making processes, something that must be understood in a corporate environment where strict respect for the most advanced national and international rules, practices and principles in this area is one of the cornerstones of its business activities.

Organic Law 5/2010, of 22 June, amending Organic Law 10/1995, of 23 November 1995, of the Criminal Code not only included offences applicable to legal persons, but also referred to the need to establish surveillance and control measures to prevent and detect them. This legal regime was reformed by Organic Law 1/2015, of 30 March 2015, detailing the requirements for management and control systems that allow legal persons to prove their diligence in the field of criminal prevention and detection.

In line with these legal requirements, ENDESA has developed internal regulatory instruments that have satisfied the need for adequate control and management systems applied in the area of criminal detection and prevention, particularly in conduct aimed at preventing bribery.

This system comprises the following standards applicable to ENDESA:

- Criminal and anti-bribery risk prevention model: a document that provides ENDESA with a control system aimed at preventing criminal offences within the company, complying with the provisions of the applicable regulations on the criminal liability of legal persons.
- Protocol in case of an Authority's Action under article 31 Bis Criminal Code: sets out in detail the procedure for an adequate response in case of risk of criminal responsibility of any ENDESA company.
- Code of Ethics of the Company: a document setting out the ethical commitments and responsibilities in the management of business and business activities assumed by ENDESA's employees, whether directors or employees of any kind, in these companies.
- Zero Tolerance Plan against Corruption: a document that represents ENDESA's firm commitment to the fight against corruption, which is the result of its adherence to the United Nations Global Compact.
- Corporate Integrity Protocols:

- > Action protocols in matters of conflicts of interest, exclusive dedication and commercial competition
- > Protocol for accepting presents, gifts and favours
- > Action protocol for dealing with public servants and the authorities

The Criminal and Anti-Bribery Compliance Policy is another part of these internal rules. Together with those mentioned above, they all make up ENDESA's Criminal Regulatory and Anti-Bribery Compliance System, an integrated body of provisions that not only respects Spanish legal requirements in this area, but is also sufficient to meet the expectations reasonably placed on organisations that operate with the highest levels of commitment in advanced markets, such as ENDESA.

Since October 2017, ENDESA's Criminal and Anti-bribery Compliance Management System has been accredited by AENOR in accordance with "UNE 19601" (Compliance Management) and "UNE-ISO 37001" (Anti-bribery Management) Standards.

The Audit and Compliance Committee (CAC) is responsible for correctly applying the "Criminal Regulatory and Anti-Bribery Compliance System," for which purposes it uses the Supervision Committee, which is a collegiate body endowed with autonomous powers of initiative and control and independence in the exercise of its functions and whose powers and principles of action are established in its Regulations. The Supervision Committee reports solely and exclusively to the Audit and Compliance Committee (CAC), which has specific functions including for the prevention of criminal risks according to its Rules of Procedure.

7.3. Main risks and uncertainties

ENDESA's activities are carried out against a backdrop in which 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:

7.3.1. 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 of ENDESA.

ENDESA's subsidiaries are subject to broad regulations on tariffs and on other aspects of their activities in Spain and Portugal, regulations that, 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 position 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 2018.

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 Policy and 6.2. Strategic Pillars, respectively, 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 that 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 that 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 potential decommissioning 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 1.309 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May 2011, 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 insu-

rance 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.

Historical or future breaches of antitrust laws could adversely affect ENDESA's business, 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.

Pursuant to Organic Law 5/2010, of 22 June, which amended Organic Law 10/1995, of 23 November, on the Criminal Code incorporating offences applicable to legal persons,



subsequently amended by Organic Law 1/2015, of 30 March, ENDESA is subject to criminal liability for certain offences. Any violations of these laws could give rise to legal proceedings 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 2018.

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.

The Company is exposed to the prices of carbon dioxide (CO₂) emission rights, which in turn influence the production cost of coal plants 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. In recent years, supply and demand management has been carried out, considerably expanding the international customer base in order to ensure a balance between purchase commitments and the volume of own consumption and sales to customers. Furthermore, ENDESA has entered into electricity and natural gas supply 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 energy 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 2018.

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 that 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 2018 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 chan-



ges 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 of seasonal changes on demand is mainly reflected in the residential and small business categories. 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 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 facility 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.

7.3.2. 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 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 finan-



cing, 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 is not material for ENDESA.

ENDESA cannot guarantee that the international or Euro-zone 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.

7.3.3. 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 proven experience, reputation and influence in the Energy Sector, through forging 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 and guarantees cover 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 ex-



posure 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 cybersecurity 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.

7.3.4. Financial risks associated with ENDESA's business lines

Note 20 to the Consolidated Financial Statements for the year ended 31 December 2018 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 borrowings 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 2018.

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 foreign currency risk is provided in Note 20.2 to the Consolidated Financial Statements for the year ended 31 December 2018.

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 2018.

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 ENEL Group, 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.

The conditions under 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.

7.3.5. 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 to the Consolidated Financial Statements for the year ended 31 December 2018.

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 risk which could arise 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. being the representative entity in Spain. Likewise, since January 2010, ENDESA has formed part of the Spanish consolidated VAT group no. 45/10, the Parent of which is 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) 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 that 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.

7.3.6. 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 2018, 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 is 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 2018.

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 2018.

ENDESA is exposed to image and reputation impairment risk

ENDESA is exposed to the opinion and perception projected to different stakeholders. 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 works to identify and monitor potential reputational events and stakeholders 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 position 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 trends, the following factors have been identified as those which could affect ENDESA most: loss of biodiversity, terrorism, water stress, cybersecurity, 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

Meeting ENDESA's economic, social and environmental responsibilities in a balanced way, on the basis of ethical criteria, 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, as evidenced by its *Open Power* strategic positioning and the creation of shared value, ensuring that the activity it carries out has a positive impact on the communities in which it operates, as the best way of guaranteeing return for its shareholders in the short, medium and long term.

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. Its compliance is expressly supported by the Company's senior management, it 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 Audit and Compliance Committee (CAC) annually monitors the Corporate Social Responsibility (RSC) 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 conveying 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 behaviour.
- **Environment:** Commitment to reducing the environmental footprint and protecting the environment.
- **Innovation:** Commitment to innovation in technology and the scope of services.
- **Communities:** 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 (CAC), the ENDESA, S.A. Board of Directors 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 2018-2020 Sustainability Plan

For ENDESA, sustainability has played a key role in defining its business focus for years. 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

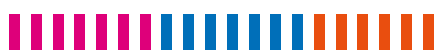
of the same objective and which are fed back to achieve it, thereby generating economic value for the Company in the short- and long-term.

The materiality analysis of ENDESA's Sustainability Plan is used to shape the strategy defined in the Industrial Plan. Indeed, ENDESA's Sustainability Plan (PES) 2018-2020 defined 4 priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan: growth through low-carbon technologies and services, optimisation of assets and innovation, involvement and inclusion of local communities and involvement and inclusion of our people.

Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management throughout the entire value creation chain, 5 transversal strategic pillars were identified: good governance and ethical conduct, occupational health and safety, environmental sustainability and responsible supply chain, oriented towards the creation of economic and financial value and with 2 transversal drivers: digitalisation and a customer-centric approach.

With more than 100 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2018-2020 Sustainability Plan, and has achieved overall compliance of 94%.

As part of its commitment to transparency and in the interest of building trust with its stakeholders, ENDESA is duly accountable for compliance with the objectives and actions included in ENDESA's Sustainability Plan (PES) 2018-2020 in the Non-Financial Statement (see Section 16. Non-Financial Statement as required by Royal Decree Law 11/2018, of 28 December 2018, amending the Code of Commerce, the consolidated text of the Spanish Corporate Enterprises Act approved by Royal [Legislative](#) Decree 1/2010, of 2 July 2010, and Law 22/2015, of 20 July 2015, on the audit of financial statements, on non-financial information and diversity in this Consolidated Management Report) and in the 2018 Sustainability Report, which is available through its website.





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 play an active role.

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 role played by the private sector in meeting the main challenges faced by society.

ENDESA has publicly undertaken to contribute specifically to the achievement of 3 of the 17 Sustainable Development Goals (SDG), while contributing to these public commitments of the ENEL Group through the different projects on which it is engaged. Since 2016, it has also laid out a roadmap to contribute specifically to the following goals:

- SDG 13 (Climate action): Decarbonisation of the energy mix by 2050, setting intermediate targets to reduce absolute emissions of carbon dioxide (CO₂) by 47% in 2020, 61% in 2030, 80% in 2040 and 100% in 2050 with respect to 2005.
- SDG 9 (Industry, innovation and infrastructure): Investment of Euros 1,300 million over the period of the 2019-2021 Strategic Plan to be at the forefront of future energy developments through digitalisation and ENDESA X.
- SDG 7 (Affordable and clean energy): No vulnerable customers without access to electricity, through the implementation of the new Social Bonus and the adaptation of the agreements signed with local authorities to guarantee electricity supply to low-income customers.

In addition, ENDESA contributes to the commitments assumed by its parent company, in relation to SDG 4 (Education) with which ENDESA has set a public commitment to reach the 164,000 beneficiaries in the 2015-2020 period and SDG 8 (Socioeconomic Development) where the Company has set a public commitment to reach 241,000 beneficiaries in the same period through the social initiatives carried out.

However, although these Sustainable Development Goals (SDGs) are the priorities for ENDESA, and therefore the emphasis will be placed on them in the years ahead, the Company 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 (R&D+i) activities

The Energy Sector 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 whe-

re 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 (R&D+i) activities

Gross direct investment in Research, Development and Innovation (R&D+i) in 2018 amounted to Euros 10 million, distributed as follows:





Millions of Euros

Gross direct investment in R&D+i		
	2018	2017
Generation and supply	6	19
Distribution	4	5
Total	10	24
Gross direct investment in R&D+i / EBITDA (%) ¹	0.28	0.68
Gross direct investment in R&D+i / EBIT (%) ²	0.52	1.18

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, improvement in the safety of people and facilities.

Areas of activity:

→ These are some of the most important digitalisation projects:

- > "IOT Besós ": demo project to implement new digital technologies at the Besós combined cycle plant. Extension of solutions to the main thermal power stations within the "Digi Plant" digital deployment initiative.

> "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.

> "Memphis": project funded within the program "R&D Challenges" of the Ministry of Science, Innovation and Universities for the development of a system that allows the measurement of temperature in boiler components through the use of fibre optics as a direct application sensor.

> "Mop": pilot project for the introduction of an operation aid system based on artificial intelligence and cognitive models.

> "E-Sense": advanced systems for monitoring and diagnosing high, medium and low voltage circuit breakers.

> "Robotics": use of a new underwater robot for use in inspection and cleaning tasks in underwater infrastructure.

> "VIVES: Realidad Virtual para Formación - (Virtual Reality for Training)": use of virtual reality for immersive training in the field of personal safety.

→ Reduction of emissions of polluting gases and environmental protection:

> "Matching": A project carried out alongside a number of other companies and Research, Development and Innovation centres (R+D+i), 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 new technology based on vibrating membranes.
 - > "Acticen": 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 to be used in prefabricated concrete. Project co-financed by Spain's "I+D Retos Colaboración" programme, of the Ministry of Science, Innovation and Universities.
 - > "Innovaalga": Upgrading carbon dioxide (CO₂) from combustion gases at the Litoral thermal power plant (Almeria), and the use of microalgae and recovery of the biomass generated to obtain high-value proteins and sustainable fertilisers.
 - > "A4HW": Research into new uses and applications of microalgae as a high value-added food source. Project co-financed by Spain's "I+D Retos Colaboración" programme, of the Ministry of Science, Innovation and Universities.
- Increase the efficiency and flexibility of the power plants:
- > "Conava": Implementation adaptive expert predictive control systems to optimise combustion and control steam heat temperature in different generation plants.
 - > "Maya": Validation of a system for measuring the composition of carbon on conveyor belts using laser techniques.
- > "Energy harvesting": Validation of an energy capture system for sensor power based on thermoelectric technology.
 - > "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" programme, of the Ministry of Science, Innovation and Universities.
 - > "Coat": Validation of new paints with microparticles for use as thin thermal and acoustic insulators
 - > "Demfore": Development of a system for the prediction of photovoltaic ramps to improve the management of thermal generation on the island of Tenerife.
- 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.
 - > "TES": Study for the integration of a pilot thermal storage scheme in solid materials in order to recover waste heat at the Las Salinas Thermal Plant in Fuerteventura.
- Safety of people and facilities:
- > "ACTS": Advanced systems for increasing people's intrinsic safety.
 - > Visual detection of gas leaks through the use of adapted thermographic cameras.
 - > "Thermoelectrika": Validation of a system for early detection of hot spots that generate fires.

Distribution grid

Guidelines: strengthen security of supply, improve service quality and respond to future customer demands through the development of smart grids, remote management 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). In 2018, the replacement of the facilities was completed in compliance with the established legal milestone.

→ Smart grid/Smart city projects: these ensure that grids are able to offer a rapid response to users' needs.

- > ENDESA is developing its "Smart Grid" concepts on its "SmartCity" programmes, where it is a leader in the sector with various active projects. It has now been nine years since the "SmartCity" project was introduced in Málaga. In 2018, "Smartcity Málaga Living Lab" was certified on the "ENoLL" (European Network of Living Labs).

- > Project for the Monitoring and advanced control of medium/low voltage distribution networks (known as "MONICA"): this project has been successfully completed and has been used to validate the estimator of low and medium voltage states. During the project, more than 1,500 million measures were processed in a customer area of 20 clients. This system will be used to gain more knowledge about the low voltage network, improving the quality of supply and its reliability.

- > Project for the Preventive Analysis of Smart Grids with Real-Time Operation and Integration of Renewable Assets (PASTORA): complementary project to the Project for the Monitoring and Advanced Control for Medium and Low Voltage Distribution Networks (MONICA), started at the end of 2018, which will build over the next 3 years an intelligence layer to take advantage of the potential of the more than 10 million daily measurements that are being obtained with the infrastructure deployed in the Advanced Monitoring and Control Project for Medium and Low Voltage Distribution Networks (MONICA).

- > "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 was completed in 2018. It was used to evaluate the technology that could reduce the technical limits of penetration of low voltage renewables in the future, thanks to dynamic management and storage.

→ "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. In 2018, field tests were carried out for congestion management in substations using the flexibility offered by third party assets, establishing the basis for the provision of flexibility services for the distributor.

→ Network innovation projects

- > "Growsmarter": ENDESA is involved in this project as part of the European Union's Horizon 2020 Programme. It provided several solutions for the Barcelona demo, in which progress has been made in the digitalisation of transformation centres.

- > "Flexiciency": the final phase of the demonstration has been carried out, within the area of the "Smart-city Malaga Living Lab." It pointed to the potential for flexibility offered by large-scale low-voltage micro-grids and 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 and 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 develop recharge systems on a real scale, which allow the energy stored to be used and are large scale examples aimed at promoting e-mobility in real environments.

Areas of activity:

Through the Business Line of ENDESA X new opportunities are exploited by taking advantage of the experience of ENEL X in electric mobility, advanced energy solutions, flexibility services and demand management. ENDESA X's Business Line develops and commercializes innovative digital products and solutions and in e-Mobility, in particular, electric mobility solutions for residential, industrial, commercial and public administration customers.

→ Public charging:

- > ENDESA presented its plan to install public charging stations for electric vehicles in Spain in the 2019-2023 period.
- > ENDESA will thus install over 8,500 public charging stations through an investment of Euros 65 million: more than 2,000 points in 2019-2020, enabling any electric vehicle to travel anywhere in Spain, and more than 6,500 points in 2021-2023, which will guarantee wider coverage of urban areas, the main motorways and the islands.
- > "Corredores Ibéricos de Carga Rápida (CIRVE)": the 40 interoperable fast chargers within this initiative will already be operational along corridors that will connect Spain with other European countries from 2019 on.
- > "Red de Recarga en Baleares": ENDESA and Smart have deployed a new semi-rapid recharging network for electric vehicles in Ibiza (22 kW, with 2 stations each) which allows you to run completely zero-emissions on the island, as the chargers are also powered by renewable energies, and with total freedom, given the size of the island and the location of the recharging points. This network will drive growth in the project started in Mallorca with the installation of 6 fast charging stations, also with certified 100% renewable energy.

→ Private charging:





ENDESA has developed recharging solutions for residential and corporate car parks, offering advice to help customers shift to electric mobility, helping them choose the solution that best suits their needs:

- > The “One-Stop Electric Vehicle Charging Solution,” aimed at individuals, is a one-stop recharging service that includes equipment, installation, maintenance, warranty and payment facilities. It is also offered by dealers of leading electric mobility brands such as Smart and Mitsubishi.
- > ENDESA offers businesses a complete solution that includes installation, equipment supply, associated infrastructure maintenance and remote management with all the information on the use of the recharging infrastructure.

Occupational safety

Developing and testing technologies which help to bring down 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. 84.032 inspections were carried out on the various lines of business in 2018.
- Extra Checking On Site or “ECoS” programme, whereby an expert team trained by co-workers at different

companies visits production centres to inspect specific tasks, drawing up comparisons and spreading the good practices observed to the rest of the organisation. Throughout 2018, 18 “Extra Checking On Site” (ECoS) visits were made.

9.4. Innovation model

ENDESA has an open innovation model aimed at finding quality ideas to develop innovative solutions to transform the current energy model. Open innovation is a new model used by companies to relate to external players (universities, start-ups, 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:** to find solutions to challenges. On two levels:
 - > Internal ideas:
 - I. ENEL Innovation World Cup: an initiative aimed at all employees to propose and develop new business models, giving participants the opportunity to become involved.
 - II. “90 minutes of innovation”: an internal initiative aimed at introducing employees to new technologies through sessions with an innovation focus. In 2018, one of the outstanding initiatives was “Dri-

ving Growth Through Data” focused on the value of data.

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 without fear 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. From a commercial standpoint, it is worth highlighting the challenge launched in the search for “Augmented Reality” applications to improve internal processes.

V. “Open Power Space”: It is a place created expressly to share ideas among internal employees, external employees and partners to develop projects oriented to innovation and the development of new businesses.

> 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: it collaborates 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 2018, ENDESA had 21 patents in Spain.



10. Environmental protection

10.1. ENDESA's environmental policy

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 key 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 9 basic procedural principles, as detailed below:

- Integration of environmental management and the concept of sustainable development into corporate strategy of the Company, 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 administrations, official bodies, shareholders, customers, local communities and other stakeholders.

- Asking contractors, suppliers and Business Partners to implement environmental policies based on these same principles.

10.2. Environmental investment and expenses

ENDESA's gross environmental investment and expenses in 2018 and 2017 were as follows (see Note 6.1 to the Consolidated Financial Statements for the year ended 31 December 2018):

Millions of Euros

	Annual gross environmental investment		
	2018	2017	% Var
Property, plant and equipment			
Generation and supply	64	92	(30.4)
Distribution	6	18	(66.7)
Structure and other ¹	—	—	N/A
Total	70	110	(36.4)

¹ Structure and services

Millions of Euros

	Annual cumulative gross environmental investment		
	31 December 2018	31 December 2017	% Var
Property, plant and equipment			
Generation and supply	1,354	1,290	5.0
Distribution	351	345	1.7
Structure and other ¹	—	—	N/A
Total	1,705	1,635	4.3

¹ Structure and services

Millions of Euros

	Annual environmental expenses		
	2018	2017	% Var
Annual expenses			
Generation and supply	78	69	(13.0)
Distribution	32	31	3.2
Structure and other ¹	—	—	N/A
Total²	110	100	(11.0)

¹ Structure and services

² Of total environmental expenses, Euros 47 million in 2018 and Euros 45 million in 2017 correspond 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 2018, 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 2018, 100% of the generation facilities, 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) certificates at 11 of its offices in Spain, and 7 of them also hold certificates for Indoor Air Quality (UNE 171330-3). It has maintained its 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, 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.

The methodology used for environmental risk analysis has been developed at sector level and has the approval of the Ministry of Ecological Transition.

In view of the results of the environmental risk analysis of all the thermal power plants and combined cycles and in accordance with the deadlines established in Ministerial Order APM/1040/2017, of 23 October, in 2018 the responsible declarations were submitted to the Administration accrediting the performance of these environmental risk analyses and the non-compulsory nature for thermal power plants and combined cycles of establishing a financial guarantee by virtue of the exemptions provided for in sections a) and b) of article 28 of Law 26/2007, of 23 October, on Environmental Responsibility.

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 made great strides 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, of 24 November 2010, on industrial emissions into Spanish law through Law 5/2013 of 11 June 2013, and Royal Decree 815/2013 of 18 October 2013, introduced new and stricter environmental restrictions in the area of pollutant emissions. In particular, 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), nitrogen oxide (NO_x) and approximately 40% of particles between 2016 and 2020.

This mechanism, the National Transitory Plan (NTP), possibly entails more stringent requirements and a greater commitment to reduce the current emissions by ENDESA's major thermal power plants.

On the other hand, and in the same way, within the scope of the new mechanisms established by the regulations on industrial emissions, the island facilities affected by Directive 2010/75/EU, of 24 November 2010, have accepted the Mechanism of Small Isolated Network, through which the application of the Emission Limit Values is extended until 31 December 2019.

In 2017 the Best Reference (BREF) document for Large Combustion Plants was approved ("Commission Implementing Decision (EU) 2017/1442 of 31 July 2017, establishing the conclusions on the Best Available Techniques (BAT) pursuant to Directive 2010/75/EU of 24 November, 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.

Water 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 water stress at its facilities.

Noteworthy is 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 2018, a significant portion of the waste recovered by ENDESA derived from its external facilities, representing 90% of its total non-hazardous waste and 58% 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.

Conservation of biodiversity

Biodiversity conservation plan

At the end of 2018, the Biodiversity Conservation Plan had 25 courses of action underway, of which 22 were launched in previous years (6 of them ended in 2018, and 16 are still in progress) and 3 new courses of action were begun last year. A breakdown of locations shows that 56% of them were carried out in areas affected by ENDESA's facilities and 28% 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 52% of the activities, distribution 32% and the remaining 16% were in the corporate area.

The Biodiversity Conservation Plan's objectives for 2018 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 it 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 2018, various studies were carried out, including:

- Comprehensive evaluation of the ecosystem services associated with ENDESA hydroelectric infrastructure. This study is a continuation of that launched in previous years, and aims to quantify the flow of the main ecosystem services provided by a highly hydroelectric basin:
 - > Procurement services: production of food, water, energy, wood and fibres, among others;
 - > Environmental regulation and maintenance services for humans: climate regulation, flooding, water quality;
 - > Cultural services: recreational and aesthetic benefits.

→ Phase IV of the HIDSOS project on water sustainability under global change completed. Phase IV has been focused on analysing and describing the dynamics of nutrients in the basin studied. The concentration of these nutrients is closely linked to the physical-chemical and ecological quality of the water masses, given their relevant role in eutrophication processes.

b) Protection of birdlife

In 2018, 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.

Also noteworthy are the recovery projects for some endangered species, including the European rattle in the surroundings of the Aiguamolls de l'Empordà Natural Park, the black vulture in the Tajo International Natural Park (which was ENDESA's first cross-border project), and the osprey in the province of Cádiz.

ENDESA has developed and applied technologies to protect birdlife against collisions with low and medium voltage power lines. This project is also a continuation of the one started in previous years, and during 2018 criteria of durability and ease of installation have been integrated into the design.

c) Social-environmental projects

As part of its Biodiversity Conservation Plan ENDESA carries out projects with a strong socio-environmental component. These include:

- Enrichment of biodiversity in areas with bears in the Pyrenees of Lérida, a project that seeks to improve habitats in order to favour the state of the reintroduced brown bear population in the Pyrenees of Lérida, and compatibility with human activities in the area.
- 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.).

→ Creation of a Mediterranean turtle-breeding nucleus in the Bovera area (Lérida).

d) Other initiatives

ENDESA promotes dissemination and knowledge of biodiversity through active participation in technical and scientific forums, as well as through the publication of studies and articles. Training and dissemination activities are also carried out to raise awareness of the projects developed by the Company.

ENDESA participates in other initiatives in the area of biodiversity and sustainability such as the Biodiversity Pact, and is an active member of the Spanish Business and Biodiversity Initiative (IEEB).

Environmental restoration

In 2018, a study into plant and wildlife biodiversity in five mining zones restored by ENDESA was continued. Specifically, sampling was repeated in the 2 restored areas which in 2018 were still owned by ENDESA: Corta Ballesta Este in Peñarroya (Córdoba) and the Puertollano mine (Ciudad Real). Also during this year the conclusions on the presence of vertebrate fauna in Puertollano have been obtained, which has allowed the number of species registered to be updated. The final results of Corta Ballesta will be obtained during 2019.

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 2018, ENDESA had a total of 9,763 employees, 0.6% more than a year earlier. ENDESA's average workforce in 2018 was 9,696 employees (-1.6%).

ENDESA's final and average headcounts in 2018 and 2017, by Business Line, were as follows:

Number of employees

	Period-end headcount						% Var
	31 December 2018			31 December 2017			
	Men	Women	Total ¹	Men	Women	Total	
Generation and supply	4,082	1,073	5,155	4,083	1,024	5,107	0.9
Distribution	2,535	443	2,978	2,491	429	2,920	2.0
Structure and other ²	867	763	1,630	884	795	1,679	(2.9)
Total employees	7,484	2,279	9,763	7,458	2,248	9,706	0.6

¹ Includes the final workforce at Empresa de Alumbrado Eléctrico de Ceuta, S.A. (65 employees) (see Section. 2.5. Consolidation Scope in this Consolidated Management Report).

² Structure and services

Number of employees

	Average headcount						% Var
	2018			2017			
	Male	Female	Total¹	Male	Female	Total	
Generation and supply	4,079	1,056	5,135	4,102	998	5,100	0.7
Distribution	2,502	433	2,935	2,582	441	3,023	(2.9)
Structure and other²	864	762	1,626	917	816	1,733	(6.2)
Total	7,445	2,251	9,696	7,601	2,255	9,856	(1.6)

¹ Includes the average workforce from Empresa de Alumbrado Eléctrico de Ceuta, S.A. (27 employees) since the date of the takeover (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

² Structure and services

The breakdown by gender of the workforce at 31 December 2018 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 2018.

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 of Occupational Health and Safety (OHS).

The activities carried out in 2018 within the framework of this strategy have mainly been in the areas of:

- Leadership and communication;
- Control, observation and analysis of activity;
- Coordination and collaboration with contractors;
- Technological development; and

→ 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, actions or behaviours that are not considered acceptable from the standpoint of risk prevention.

The main activities performed by ENDESA in 2018 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 2018, ENDESA provided a total of 102.637 hours of training in Occupational Health and Safety (OHS) for its own personnel and 6.397 people attended preventive training courses.

In 2018, 84,032 safety inspections were made on works and/or related projects by the company's own personnel and contractors, which contributed significantly to reducing workplace accidents. Furthermore, 219 "Safety Walks" were carried out in 2018 and there were 18 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 from happening again.



Occupational health and safety (OHS) indicators

In 2018 and 2017, the main Occupational Health and Safety (OHS) indicators were as follows:

	Main figures	
	2018	2017
Combined frequency index ¹	0.72	0.75
Combined seriousness index ²	0.06	0.09
Number of accidents ³	39.27	37.42

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 2 in 2018 and 3 in 2017 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 Corporate Social Responsibility (CSR) initiatives to seek to foster the Group values of responsibility, innovation, proactivity and confidence.

In 2018, the company worked on each of the following dimensions of Corporate Social Responsibility (CSR), carrying out various activities: which are described below.

Diversity and equal opportunities

ENDESA, within the policy of Diversity and Inclusion, rejects all manner of discrimination and undertakes to gua-

rantee 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 2018, the actions envisaged in the agreement signed with the Ministry of Health, Social Services and Equality were implemented in the areas of selection, promotion and work/life balance, among others, and the Equality Award granted by the said Ministry was maintained. Along these lines, the "Take the Lead" project, a development programme aimed at women with potential in society, was launched.

Within this framework, the special Diversity and Inclusion days were held in November 2018. A total of 10 activities were carried out, both awareness-raising and participatory, framed within the dimensions of the Diversity and Inclusion policy (gender, age, disability and nationality).

Work-life balance and flexibility

At 31 December 2018, 1,843 employees of ENDESA benefited from the initiatives to promote work-life balance.

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 gives employees the opportunity to adapting their working day to their needs, through flexible hours, temporary timetable changes, reductions in working hours, unpaid leave for looking after family members, remunerated leave, unpaid leave and absences and remote working.

The impetus given this year to the “Work outside the office” initiative has been very important. It 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, 1,757 employees (861 women and 896 men) took part in this initiative in 2018.

During 2018, the “Sala To Do” was inaugurated in Madrid. Open all hours, with online payment, it offers a host of services. Specifically: clothing and footwear repairs, dry cleaning, laundry, financial advice, repair of mobile phones, tablets and computers. There is also an app that allows people to share the private vehicle on their way to and from the office, e-sharing car service with a fleet of electric vehicles for professional use, cleaning and car repairs, yoga classes, Pilates and maintenance gymnastics, nutritionist and travel agency.

In the Barcelona, Madrid and Seville offices, in order to favour women who have been mothers, the breastfeeding room service has continued to be offered.

Integration of people with disabilities and people at risk of social exclusion

ENDESA develops actions in the field of the integration of people with disabilities, collaborating with foundations aimed at this end. These actions are specified both in projects that favor the employment of this group, as in services that support the 76 people with disabilities in the workforce as of 31 December 2018, and employees with family members with disabilities.

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 it operates, contributing to activities that raise interest in the Company and its stakeholders. The most outstanding volunteer projects deal with facilitating access to energy, helping vulnerable groups, promoting employability, and improving the environment.

In 2018, 18 volunteering projects were developed, involving 463 volunteers during working hours and 225 after-hours. Of the total of 688 volunteers, 188 have collaborated in both modalities. These projects have involved a total contribution of 4,041 hours during working hours and 3,000 hours after-hours.

Over 8,400 people benefited from these initiatives in 2018.

11.4. Employment climate

In 2018, specific action plans were implemented for all ENDESA's units and managers, starting at the most se-





nior executive level, to boost motivation and commitment among the company's workforce.

The initiatives forming part of these plans aim to leverage ENDESA's 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 "Remote working" 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 "Remote Working" 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 ENDESA X team with a new environment to carry out its tasks. 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 personal development on merit and their contribution.

ENDESA's leadership model is based on the Company'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.

ENDESA has carried out various professional development actions adapted to the specific needs of each business, such as the following:

- "Coaching": 105 people have benefited from this type of individual or group action, carried out through the in-house coaching network of over 30 in-house coaches. This coaching team is one area where ENDESA is seen as an example to follow by other IBEX-35 companies.
- Skills Workshops: 2 courses ("Coach Manager" and "Vamos"), divided into 49 sessions, have been carried out through in-house instructors to almost 700 employees.
- Mentoring: a project for the transfer of knowledge through individual mentoring with the participation of 77 employees in the conventional mentoring program and "Women Mentoring" launched in 2018. This initiative has had a direct impact on all businesses.
- Human Resources Consulting: during the year, ENDESA further reinforced an internal consultancy line that provides "ad hoc" solutions to business needs. This action is carried out by in-house development experts applying personal coaching and consulting techniques and tools.

- The main actions carried out have involved the following areas of the Company: Thermal Generation (257 employees), Occupational Health and Safety (OHS) (434 employees), Renewable Energies (61 employees), Big Data Office (57 employees) and Staff (People Management) (18 employees).
- Succession Plans: in 2018 ENDESA made further progress in plans to identify the most suitable people to occupy the positions of greatest managerial responsibility in the future.
- In 2018, an innovative process was introduced to assess people's behaviour based on exchanging feedback throughout the organisation: "Open Feedback Evaluation" (OFE). This process replaces the Performance Appraisal (PA) and introduces 2 important new features: evaluations can be carried out by anyone in the organisation (previously only the person in charge evaluated) and the evaluation/feedback process is open all year round (previously it was at a specific time of the year).
- ENDESA continues to use the Management by Objectives (MBO) and Annual Bonus (AB) evaluation systems, which it applies to executives and employees with variable remuneration, respectively. There is also the Sales Force Objectives system that affects all salespeople, with variable remuneration, excluding Management by Objectives (MBO) and Annual Bonus (AB).
- A total of 57.9% of ENDESA employees took part in any of these evaluation processes, which means a total of 5,616 people. This figure is lower than in 2017, as the campaign for the new tool "Open Feedback Evaluation" (OFE 2018), which involves everyone in the organisation, has not yet been completed. However, some people have been involved in more than one evaluation system, bringing the total number of evaluations conducted in 2018 to 6,840.

11.6. Training

ENDESA offers its employees 360° training in order to equip and improve the technical qualifications they need to perform their duties, and to encourage the growth of attitudes

and skills for their personal development. This offer is aimed at achieving compliance with the Company's strategic objectives and at promoting its values.

To undertake this activity, ENDESA invested Euros 25 million, Euros 7 million of which were for direct training costs.

In 2018, ENDESA held 2,802 training sessions, in which 8,395 employees took part. 370,416 training hours were given, with an average of 37.9 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, criminal risk prevention, sustainability and the environment.

Occupational health and safety (OHS) training.

With regard to occupational health and safety (OHS), the workplace risk 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

Commitment to sustainable development is an essential part of ENDESA's activity. 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 2018 with around 7,707 hours of class provided to ENDESA employees. With this training, the Company complied with requirements for renewal of its different ISO 14001, energy efficiency and Integrated Environmental, Energy Efficiency and Indoor Air Quality Management System certificates.

An online environmental awareness course, which reviews the progress made by people in their relationship with the environment and, in particular, the nature of ENDESA's relationship with and commitment to the environment, was designed and made available to all employees.

Digitalisation training

Training in digital transformation was an important chapter in 2018, with more than 31,277 hours taught.

ENDESA identifies the need to train its employees in the latest digital trends in the professional sector through its "e-talent" training programme. The programme begins with a first general training phase, called "Digital Introduction", which covers the basic concepts of digitalisation for ENDESA employees, followed by a second training phase called "Digital Tools", focused on providing new digital tools to different areas of the company: Sales, Global Digital Solutions, People and Organisation, Generation and Renewable Energies, Audit, Legal Advice and Administration, Finance and Control. "Digital Basic" training courses are carried out at the same time to develop ENDESA employees' Smartphone skills.

ENDESA, in its quest to be an agile and innovative organisation, has increased the number of courses on digitalisation, especially in Big Data, Salesforce, Business Analytics, Digital Marketing and Social Media Management.

Other training activities

Through its courses in management, social and leadership skills, ENDESA provides employees with tools to ensure their personal and professional development. These courses

are managed transversally among different Lines of Business Lines and Support Areas. In 2018, 152,708 hours of skills management programmes were provided.

Training in agile methodologies has been a key part of the company's goal of implementing agile management methods. In September, the "beComeAgile" programme was launched, aimed at all employees. The idea is for them to learn about what goes into the agile method and how it works, and also the reasons and basic considerations for implementing the standard agility model and starting to work according to this methodology.

ENDESA is also constantly committed to providing employees with technical training. This assists their professional development and gives them the qualifications to go about their tasks. Almost 71,076 hours of technical instruction were taught in 2018 at the Generation, Renewables, Distribution, Supply, Global Digital Solutions (GDS), Purchases and Support Areas.

Finally, since it forms part of a multinational, ENDESA is keen to provide language classes, chiefly 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. As part of these initiatives, in order to attract and retain this talent within the Company, it has attended job fairs in different universities, international employment congresses and vocational training centres. A number of different innovation, technology and diversity events have been held, mainly for young people in order to improve their technological skills and knowledge.

Other initiatives have also been launched to help improve the employability of young people and so to help them gain a foothold on the job market, such as the "Millennial Day"

in different formats, whose target audience are young people about to graduate or recent graduates or events in coordination with public bodies.

Other actions underway aimed at drawing talent to the company are the “Recruitment Day”, to find profiles which businesses are interested in and aligned with the values of the Company: responsibility, innovation, confidence and proactivity.

Given the need to incorporate STEM (Science, Technology, Engineering, Mathematics) profiles, medium and long-term actions are being taken to encourage technological vocations at earlier ages (schools and institutes), with a special focus on girls, according to the business strategy of gender diversity.

In a digital environment, communication and the relationship with candidates change quickly, which is why the company has reinforced and improved its presence in social media and other online platforms. These digital channels are one of the main recruitment channels. For example, over 100 video interviews have been conducted, enabling us to digitalise and streamline selection process times.

In 2018, 170 young graduates “millennial” were recruited through the ENDESA Grants Programme, boosting their employability and giving them the opportunity to put into practice the knowledge acquired at university, and begin a professional career. 60 of these students were taken on after their grants expired.

In line with the gender diversity strategy, women have been trained in middle management positions to improve their leadership skills and encourage promotions without gender bias.

ENDESA not only carries out internal selection processes for each country, but also occasionally arranges professional employee exchanges between countries. This aspect has come to the fore since ENDESA joined the ENEL Group.

International mobility

In 2018, 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.

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. Internal job vacancies are given priority.

In 2018, ENDESA carried out 333 internal selection processes.

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.

In 2018, more than 395 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 draw, retain 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 2018, as in previous years, a meritocracy policy 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 manager's role in recognising employees' achievements.

11.8. Social dialogue

In Spain and Portugal there were 4 collective agreements in force at the end of 2018, affecting 8,752 employees, 89.64% of the workforce. On 1 January 2019, ENDESA's IV Collective Agreement, which affects the greatest number of people (7,697 workers), finalised its application).

Pursuant to Spanish and conventional labour regulations in force during fiscal year 2018, the criteria that should be adhered to in the event of business reorganisation and corporate restructuring have been established, and Union representatives will be informed at least 30 days before the corporate restructuring and reorganisation is actually implemented.

The most important actions regarding collective bargaining in 2018 were as follows:

- Negotiation of ENDESA's Fifth Collective Agreement, although it ended without an agreement.
- Negotiation of the new organisation in the area of Hydroelectric Production Units.
- Consultation period on the new schedules for Thermal Generation operation.
- Information on the announcement of the request to close the facilities of Compostilla, Andorra and Groups 1 and 2 of Alcudia.

At ENDESA in Spain, on 27 December 2018, ENDESA's Fifth Collective Agreement was dissolved and closed. Hence, there has been no collective labour framework since 1 January 2019, and the provisions of general labour legislation and case law have been applied (see Note 39 to the Consolidated Financial Statements for the year ended 31 December 2018).

Spain has been an ILO signatory since its foundation, and ENDESA's conventional regulations meet the existing Conventions ratified by Spain.

12. Treasury shares

ENDESA did not hold any treasury shares at 31 December 2018 and did not carry out any transactions involving treasury shares in 2018.

13. Other information

13.1. Stock market information

The performance of ENDESA's share price on the Madrid stock market and major indices in 2018 and 2017 is as follows:

Percentage (%)		
Share price performance ¹	2018	2017
ENDESA, S.A.	12.7	(11.3)
IBEX-35	(15.0)	7.4
Euro Stoxx 50	(14.3)	6.5
Euro Stoxx Utilities	0.3	15.7

¹ Considering dividends distributed in 2018, in the gross amount of Euros 1.382 per share, the return for shareholders in 2018 was +20.5%. Considering the dividends distributed in 2017, in the gross amount of Euros 1.333 per share, the return for shareholders in 2017 was -4.7%.



Stock market information		31 december 2018	31 december 2017	% Var
Market cap	Millions of Euros ¹	21,313	18,904	12.7
Number of shares outstanding		1,058,752,117	1,058,752,117	—
Nominal share value	Euros	1.2	1.2	—
Cash	Millions of Euros ²	10,355	10,866	(4.7)
Madrid stock exchange	Shares			
Trading volume	³	547,343,953	536,793,866	2.0
Average daily trading volume	⁴	2,146,447	2,105,074	2.0
Price to earnings ratio (P.E.R.)	⁵	15.03	12.92	—
Price / Carrying amount	⁶	2.36	2.08	—

¹ Market cap = No. of shares at the end of the reporting period * Share price at the end of the reporting 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 (Source: 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 (P.E.R.) = Share price at the end of the reporting period / Net earnings per share.

⁶ Price / Carrying amount = Market cap / Equity of the Parent.

Euros		2018	2017	% Var
ENDESA share price ¹				
High		21.270	22.760	(6.5)
Low		16.600	17.855	(7.0)
Average in the period		18.938	20.234	(6.4)
End of the reporting period		20.130	17.855	12.7

¹ Source: Madrid Stock Exchange.

2018 was a negative year for most stock markets, affected by early signs of economic slowdown and changes in the monetary policy of the Federal Reserve and the European Central Bank (ECB), interpreted as a possible change of cycle, and by factors such as trade tensions, doubts about the conclusion of Brexit or political instability in countries such as Spain or Italy.

The Spanish stock exchange was no exception. There was a high degree of volatility in its main indicator, the IBEX-35, which ended the year with a decrease of 15.0%, recording the worst annual result since 2010, when the fall exceeded 17%.

The picture was very similar in the other European stock markets. The German stock exchange performed worst. The DAX index fell by 18.3%, penalised by the poor performance of exporting companies faced by the threat of the U.S. trade war against China and Europe. In the United Kingdom, the FTSE index lost 12.5%, and in France the CAC index ended the year with a decline of 11.0%.

In Italy, the FTSE MIB index ended with a 16.2% decline as a result of political tensions between the country's government and the European Union over its spending plans, which made the country's risk premium soar.

U.S. indices also fell, albeit to a lower extent and by only one digit. The S&P 500 ended up shedding 6.2% and the DJI 5.6%, while the NASDAQ 100 index performed best, dropping only 1.0%.

In Spain, the IBEX-35 began 2018 by prolonging the upbeat tone with which it had ended the previous year and at the end of January, it hit a high of 10,609.5 points, at which point it had gained 6%. Since then, the decline in the index has been virtually continuous, with the exception of a small rebound during the months of May and June encouraged by the change of Government.

There was a lot of turmoil in the Spanish stock market in the second half of 2018, with a negative trend. The IBEX-35 index hit an annual low on 27 December 2018 at 8,363.9 points, 17% below the level it began the year, and closed

a few sessions later close to that level, at 8,539.9 points, with the 15.0% drop mentioned above.

Only 8 IBEX-35 stocks managed to avert losses. The biggest gains were for Electricity Sector defensive stocks used as safe havens in complicated market contexts. Within this ranking, ENDESA finished second, with a total gain of 12.7% in the year. The worst performing stocks were in the Banking Sector, affected by the backdrop of low interest rates that penalises banks' traditional margins.

The good performance of Spanish electricity companies also helped the "Euro Stoxx Utilities" index to shine in 2018. In fact it was the second best-performing stock market in Europe, despite the fact that it only managed to remain practically flat, with only a slight gain of 0.3% at year end. ENDESA ranked fourth in this Euro Stoxx Utilities index.

ENDESA's share price performance went in the opposite direction from the IBEX-35, having marked a low of Euros 16.6 per share at the close of the session on 9 February 2018 and a high of Euros 21.27 per share at the close of the session on 24 December 2018.

The main driver was the sustained improvement in the key parameters of the business throughout the year, most notably the improvement in hydroelectric production, higher renewable production and the most favourable conditions in the gas market.

The second half of the year prompted further marked optimism due to the change of Government, on top of the improvement in the operating scenario. In the last quarter, ENDESA's shares fell due to a sudden increase in the perception of regulatory risk given the political situation (in October). However, the Strategic Plan 2019-2021 presented in November managed to turn the share price around, which closed the year at Euros 20.13 per share, very close to the year's maximum levels.

In addition to the 12.7% positive stock market return on ENDESA shares in 2018, the company distributed a gross EUR 1.382 per share as a dividend against 2017 earnings, which gave an additional dividend yield of 7.7%. Total sha-

reholder return, calculated as the sum of the market return and dividend yield, was 20.5% in 2018.

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 also guarantees the sustainability of its business project.

As a result of this economic-financial strategy, unless any exceptional circumstances arise, which will be duly announced, at a meeting on 20 November 2018 the Board of Directors of ENDESA, S.A. approved the following shareholder remuneration policy for 2018-2021:

- 2018 to 2020: the ordinary dividend per share agreed to be distributed with a charge to those years shall be equal to 100% of the ordinary net profit attributed to the Parent Company in the Consolidated Financial Statements of the Group headed by it, with a minimum equal to Euros 1.33 gross per share for the financial year 2018.
- 2021: the ordinary dividend per share to be distributed in this year will be the equivalent to 80% of ordinary net profit attributable to the Parent set down in the consolidated annual financial statements of the Group headed by this company.
- 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.
- Notwithstanding the foregoing, 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.



With regard to the year 2018, At its meeting held on 20 November 2018, the Board of Directors of ENDESA, S.A. resolved to distribute to its shareholders an interim dividend out of 2018 profit for a gross amount of EUR 0.70 per share, for a total of Euros 741 million on 2 January 2019.

The proposed distribution of profit in 2018 to be presented for approval at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 1.427 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 final dividend in respect of 2018 will be a gross amount of Euros 0.727 per share.

Details of ENDESA, S.A.'s per-share dividends in 2018 and 2017 are as follows:

		2018	2017	% 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 income	Millions of Euros	1,417	1,463	(3.1)
Consolidated net ordinary income	Millions of Euros	1,511	1,452	4.1
Individual net income	Millions of euros	1,511	1,491	1.3
Net earnings per share ¹	Euros	1.338	1.382	(3.2)
Ordinary net earnings per share ²	Euros	1.427	1.371	4.1
Gross dividend per share	Euros	1.427 ³	1.382 ⁴	(3.3)
Consolidated pay-out ⁵	(%)	106.6	100.0	—
Consolidated ordinary pay-out ⁶	(%)	100.0	100.8	—
Individual pay-out ⁷	(%)	100.0	98.1	—

¹ Net earnings per share (Euros) = Profit/(loss) of the Parent/ No. of shares at the end of the period.

² Ordinary net earnings per share (Euros) = Net ordinary income of the Parent/ No. of Shares at the end of the period.

³ Gross interim dividend of Euros 0.7 per share paid on 2 January 2019, plus a gross final dividend of Euros 0.727 per share pending approval by the ENDESA, S.A. General Shareholders' Meeting. (see Section 17 Proposed Distribution of Profit in this Consolidated Management Report).

⁴ Gross interim dividend of Euros 0.7 per share, paid out on 2 January 2018 plus the gross final dividend of Euros 0.682 per share paid out on 2 July 2018.

⁵ Consolidated pay-out (%) = (Gross dividend per share * Number of shares at the end of the reporting period) / Profit/(loss) of the Parent.

⁶ Consolidated ordinary pay-out (%) = (Gross dividend per share * Shares at the end of the reporting period) / Net ordinary income of the Parent.

⁷ Individual pay-out (%) = (Gross dividend per share * Number of shares at the end of the reporting period) / Profit/(loss) of ENDESA, S.A.

14. Information on average payment periods to suppliers

Information on the average payment period to suppliers in 2018 is provided in Note 23.1 to the Consolidated Financial Statements for the year ended 31 December 2018.

15. Annual Corporate Governance Report as required by Article 538 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act

The 2018 Annual Corporate Governance Report, as required by Article 538 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act, forms an integral part of this Consolidated Management Report, and its contents are

available on the website of the Spanish National Securities Market Commission (CNMV) at the following address:

<https://www.cnmv.es/portal/consultas/EE/Informacion-GobCorp.aspx?nif=A-28023430>





16. Non-financial Information Statement as required by Law 11/2018, of 28 December 2018, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July 2010, and Law 22/2015, of 20 July 2015, on the auditing of financial statements, on non-financial and diversity information

The Non-financial Information Statement as required by Law 11/2018, of 28 December 2018, amending the Code of Commerce, the Consolidated Text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2

July 2010 and Law 22/2015, of 20 July 2015, on the auditing of financial statements, in the areas of non-financial and diversity information, is included as Appendix IV to this Consolidated Management Report and forms an integral part thereof.

17. Proposed distribution of net income

Profit for 2018 of ENDESA, S.A., the Parent, amounted to Euros 1,510,858,443.24.

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 1.427 gross per share with the rest taken to retained earnings.

	Proposed distribution of net income
	Euros
To dividends ¹	1,510,839,270.96
To retained earnings	19,172.28
Total	1,510,858,443.24

¹ Maximum amount to be distributed based on Euros 1.427 gross per share for all shares (1,058,752,117 shares).

25 February 2019



Appendix I

Alternative Performance Measures

Alternative performance measures (APMs)	Unit	Definition	Reconciliation of alternative performance measures (APMs)		Relevance of use
			31 December 2018	31 December 2017	
EBITDA	Millions of Euros	Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses	3,627 MM€ = 20,195 MM€ - 14,567 MM€ + 270 MM€ - 947 MM€ - 1,324 MM€	3,542 MM€ = 20,057 MM€ - 14,569 MM€ + 222 MM€ - 917 MM€ - 1,251 MM€	Measure of operating return excluding interest, taxes, provisions and amortisation
EBIT	Millions of Euros	EBITDA - Depreciation and amortisation, and impairment losses	1,919 MM€ = 3,627 MM€ - 1,708 MM€	2,031 MM€ = 3,542 MM€ - 1,511 MM€	Measure of operating return excluding interest and taxes
Net ordinary income	Millions of Euros	Profit/(loss) of the Parent - Net gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million)).	1,511 MM€ = 1,417 MM€ - 25 MM€ + 119 MM€	1,452 MM€ = 1,463 MM€ - 11 MM€	Measure of profit for the period stripping out extraordinary items in excess of Euros 10 million.
Contribution margin	Millions of Euros	Income - Procurements and services	5,628 MM€ = 20,195 MM€ - 14,567 MM€	5,488 MM€ = 20,057 MM€ - 14,569 MM€	Measure of operating return including direct variable production costs
Procurements and services	Millions of Euros	Power purchases + Fuel consumption + Transport costs + Other variable procurements and services	14,567 MM€ = 4,784 MM€ + 2,269 MM€ + 5,463 MM€ + 2,051 MM€	14,569 MM€ = 4,933 MM€ + 2,294 MM€ + 5,652 MM€ + 1,690 MM€	Goods and services for production
Net financial profit/(loss)	Millions of Euros	Financial income - Financial expense +- Net exchange differences	(139) MM€ = 36 MM€ - 173 MM€ - 2 MM€	(123) MM€ = 51 MM€ - 178 MM€ + 4 MM€	Measure of financial cost
Net financial expense	Millions of Euros	Financial income - Financial expense	(137) MM€ = 36 MM€ - 173 MM€	(127) MM€ = 51 MM€ - 178 MM€	Measure of financial cost
Net investment	Millions of Euros	Gross investments - Capital grants and transferred facilities	1,310 MM€ = 1,470 MM€ - 160 MM€	982 MM€ = 1,175 MM€ - 193 MM€	Measure of investment activity
Net financial debt	Millions of Euros	Non-current borrowings + Current borrowings - Cash and cash equivalents - Financial derivatives recognised under financial assets	5,770 MM€ = 4,975 MM€ + 1,046 MM€ - 244 MM€ - 7 MM€	4,985 MM€ = 4,414 MM€ + 978 MM€ - 399 MM€ - 8 MM€	Short and long-term financial borrowings, less cash and financial investment cash equivalents
Leverage	%	Net financial debt / Equity	62.85% = 5,770 MM€ / 9,181 MM€	53.99% = 4,985 MM€ / 9,233 MM€	Measure of the weighting of external funds in the financing of business activities
Debt	%	Net financial debt / (Equity + Net financial debt)	38.59% = 5,770 MM€ / (9,181 MM€ + 5,770 MM€)	35.06% = 4,985 MM€ / (9,233 MM€ + 4,985 MM€)	Measure of the weighting of external funds in the financing of business activities

MM€ = millions of Euros; € = Euros.

n = 31 December of the year being calculated.

n-1 = 31 December of the year before the year being calculated.

Alternative performance measures (APMs)	Unit	Definition	Reconciliation of alternative performance measures (APMs)		Relevance of use
			31 December 2018	31 December 2017	
Average life of gross financial debt	Number of years	(Principal * Number of valid days) / (Valid principal at the end of the reporting period * Number of days in the period)	5.3 years = 32,163 / 6,015	6.1 years = 32,944 / 5,380	Measure of the duration of borrowings to maturity
Average cost of gross financial debt	%	(Cost of gross financial debt) / Gross average financial debt	1.9% = 126 MM€ / 6,777 MM€	2.1% = 130 MM€ / 6,082 MM€	Measure of the effective rate of borrowings
Debt coverage ratio	Number of months	Maturity period (months) for vegetative debt that could be covered with the liquidity available	26 months	29 months	Measure of the capacity to meet debt maturities
Return on equity	%	Profit/(loss) of the Parent / Equity of the Parent (n) + Equity of the Parent (n-1) / 2)	15.63% = 1,417 MM€ / (9,037 + 9,096 / 2) MM€	16.21% = 1,463 MM€ / (9,096 + 8,952 / 2) MM€	Measure of the capacity to generate profits on shareholder investments
Return on assets	%	Profit/(loss) of the Parent / Total assets (n) + Total assets (n-1) / 2)	4.52% = 1,417 MM€ / (31,656 + 31,037 / 2) MM€	4.72% = 1,463 MM€ / (31,037 + 30,960 / 2) MM€	Measure of business profitability
Economic profitability	%	EBIT / (PP&E (n) + PP&E (n-1) / 2)	8.81% = 1,919 MM€ / (21,840 + 21,727 / 2) MM€	9.31% = 2,031 MM€ / (21,727 + 21,891 / 2) MM€	Measure of the capacity to generate income from invested assets and capital
Return on capital employed (ROCE)	%	Profit from operations after tax / ((Non-current assets (n) + Non-current assets (n-1) / 2) + (Current assets (n) + Current assets (n-1) / 2))	4.80% = 1,505.2 MM€ / (26,001 + 25,507 / 2) + (5,655 + 5,530 / 2) MM€	5.08% = 1,574.6 MM€ / (25,507 + 25,525 / 2) + (5,530 + 5,435 / 2) MM€	Measure of the return on invested capital
Liquidity	N/A	Current assets / Current liabilities.	0.73 = 5,655 MM€ / 7,694 MM€	0.73 = 5,530 MM€ / 7,535 MM€	Measure of the capacity to meet short term commitments
Solvency	N/A	(Equity + Non-current liabilities) / Non-current assets	0.92 = (9,181 MM€ + 14,781 MM€) / 26,001 MM€	0.92 = (9,233 MM€ + 14,269 MM€) / 25,507 MM€	Measure of the capacity to meet obligations
Debt coverage	N/A	Net financial debt / EBITDA	1.59 = 5,770 MM€ / 3,627 MM€	1.41 = 4,985 MM€ / 3,542 MM€	Measure of the amount of available cash flow to meet payments of principal on borrowings
Net earnings per share	Euros	Profit/(loss) of the Parent / Shares at the end of reporting period	1.339 € = 1,417 MM€ / 1,058,752,117 shares	1.382 € = 1,463 MM€ / 1,058,752,117 shares	Measure of the portion of net income corresponding to each share outstanding
Ordinary net earnings per share	Euros	Net ordinary income of the Parent / Shares at end of the reporting period	1.427 € = 1,511 MM€ / 1,058,752,117 shares	1.371 € = 1,452 MM€ / 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 from operating activities / Number of shares at the end of the reporting period	2.286 € = 2,420 MM€ / 1,058,752,117 shares	2.303 € = 2,438 MM€ / 1,058,752,117 shares	Measure of the portion of funds corresponding to each share outstanding
Book value per share	Euros	Equity of the Parent / Number of shares at the end of the reporting period	8.536 € = 9,037 MM€ / 1,058,752,117 shares	8.591 € = 9,096 MM€ / 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 end of the reporting period * Share price at the end of the reporting period	21,313 MM€ = 1,058,752,117 shares * 20.130 €	18,904 MM€ = 1,058,752,117 shares * 17.855 €	Measure of the total enterprise value according to the share price
Price to earnings ratio (P.E.R.)	N/A	Share price at the end of the reporting period / Net earnings per share.	15.03 = 20,130 € / 1.339 €	12.92 = 17,855 € / 1.382 €	Measure indicating the number of times earnings per share can be divided into the market price of the shares

MM€ = millions of Euros; € = Euros.

n = 31 December of the year being calculated.

n-1 = 31 December of the year before the year being calculated.





Alternative performance measures (APMs)	Unit	Definition	Reconciliation of alternative performance measures (APMs)		Relevance of use
			31 December 2018	31 December 2017	
Consolidated pay-out	%	(Gross dividend per share * N° shares at the close of the period) / Profit for the year of the parent	106.6% = (1.427 € * 1,058,752,117 shares) / 1,417 MM€	100.0% = (1.382 € * 1,058,752,117 shares) / 1,463 MM€	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (consolidated Group)
Consolidated ordinary pay-out	%	(Gross dividend per share * No. of shares at the end of the reporting period) / Net ordinary income of the Parent	100.0% = (1.427 € * 1,058,752,117 shares) / 1,511 MM€	100.8% = (1.382 € * 1,058,752,117 shares) / 1,452 MM€	Measure of the part of ordinary income obtained used to remunerate shareholders through the payment of dividends (consolidated Group)
Individual pay-out	%	(Gross dividend per share * No. shares at the end of the reporting period / Profit for the year of the ENDESA, S.A.	100.0% = (1.427 € * 1,058,752,117 shares) / 1,511 MM€	98.1% = (1.382 € * 1,058,752,117 shares) / 1,491 MM€	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (individual company)

MM€ = millions of Euros; € = Euros.

n = 31 December of the year being calculated.

n-1 = 31 December of the year before the year being calculated.

Appendix II

Effect of changes to accounting policies on the Consolidated Statement of Financial Position at 1 January 2018

Millions of Euros

	1 January 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	1 January 2018 (Adjusted) ¹
ASSETS				
Non-current assets	25,507	12	95	25,614
Property, plant and equipment	21,727	—	—	21,727
Investment property	9	—	—	9
Intangible assets	1,196	—	95	1,291
Goodwill	459	—	—	459
Investments accounted for using the equity method	205	—	—	205
Non-current financial assets	769	(10)	—	759
Deferred tax assets	1,142	22	—	1,164
Current assets	5,530	(43)	—	5,487
Inventories	1,267	—	—	1,267
Trade and other receivables	3,100	(33)	—	3,067
Trade receivables	2,877	(33)	—	2,844
Current income tax assets	223	—	—	223
Current financial assets	764	(10)	—	754
Cash and cash equivalents	399	—	—	399
Non-current assets held for sale and discontinued operations	—	—	—	—
Total assets	31,037	(31)	95	31,101
Equity and liabilities				
Equity	9,233	(40)	71	9,264
Of the Parent	9,096	(40)	71	9,127
Share capital	1,271	—	—	1,271
Share premium and reserves	7,155	(40)	71	7,186
Profit for the period of the Parent	1,463	—	—	1,463
Interim dividend	(741)	—	—	(741)
Valuation adjustments	(52)	—	—	(52)
Of non-controlling interests	137	—	—	137
Non-current liabilities	14,269	9	24	14,302
Deferred income	4,730	—	—	4,730
Non-current provisions	3,382	—	—	3,382
Provisions for pensions and similar obligations	951	—	—	951
Other non-current provisions	2,431	—	—	2,431
Non-current interest-bearing loans and borrowings	4,414	—	—	4,414
Other non-current liabilities	646	—	—	646
Deferred tax liabilities	1,097	9	24	1,130
CURRENT LIABILITIES	7,535	—	—	7,535
Current interest-bearing loans and borrowings	978	—	—	978
Current provisions	425	—	—	425
Provisions for pensions and similar obligations	—	—	—	—
Other current provisions	425	—	—	425
Trade payables and other current liabilities	6,132	—	—	6,132
Suppliers and other payables	5,962	—	—	5,962
Current income tax liabilities	170	—	—	170
Liabilities associated with non-current assets classified as held for sale and discontinued operations	—	—	—	—
TOTAL EQUITY AND LIABILITIES	31,037	(31)	95	31,101

¹ Adjusted at 1 January 2018 as explained in Section 2.2. Changes in accounting policies in this Consolidated Management Report.





Appendix III

Impact of changes in the accounting policies on the Consolidated Financial Statements for year ended on 31 December 2018

Millions of Euros

Consolidated Statement of Financial Position	31 December 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	31 December 2018 Unaffected by the Application of IFRS 9 and IFRS 15
Non-current assets	26,001	(19)	(111)	25,871
Current assets	5,655	36	—	5,691
Total assets	31,656	17	(111)	31,562
Equity	9,181	33	(83)	9,131
Of the Parent	9,037	33	(83)	8,987
Of non-controlling interests	144	—	—	144
Non-current liabilities	14,781	(16)	(28)	14,737
Current liabilities	7,694	—	—	7,694
Total equity and liabilities	31,656	17	(101)	31,562

Millions of Euros

Consolidated Income Statement	2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	2018 Unaffected by the application of IFRS 9 and IFRS 15
Income	20,195	—	—	20,195
Procurements and services	(14,567)	—	(70)	(14,637)
Other variable procurements and services	(2,051)	—	(70)	(2,121)
Contribution margin	5,628	—	(70)	5,558
EBITDA	3,627	—	(70)	3,557
Depreciation and amortisation, and impairment losses	(1,708)	(6)	54	(1,654)
Profit from operations	1,919	(6)	(16)	1,897
Net financial profit/(loss)	(139)	(3)	—	(142)
Profit/(loss) before tax	1,818	(9)	(16)	1,173
Income tax expense	(392)	2	4	(386)
Profit for the period	1,426	(7)	(12)	1,407
Parent	1,417	(7)	(12)	1,398
Non-controlling interests	9	—	—	9

Appendix IV

Non-Financial Statement

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



Consolidated non-Financial Statement of ENDESA, S.A. and subsidiaries

endesa

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Organisation of the ENDESA Group

1. Business model for the management and organisation of the Group's activities

1.1. Name of the organisation

ENDESA, S.A. and subsidiaries, hereinafter the 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 Consolidated Non-Financial Statement

This document, which forms an integral part of the Consolidated Management Report at 31 December 2018 of the Endesa Group, was drawn up according to the requirements of Law 11/2018, of 28 December, which amends the Code of Commerce, the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Audit of Financial Statements, in matters of non-financial information and diversity.

To provide this information, the ENDESA Group has followed the precepts of the Global Reporting Initiative (GRI Standards) and its “Electric Utilities Sector Supplement” for the indicators listed in the attached Annex.

The scope of this Consolidated Non-Financial Statement includes the consolidated information on the year 2018 of the Endesa Group, based on the consolidation principles included in the consolidated financial statements.

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. operates its electricity generation activity in the mainland system and in the Non-Mainland Territories, which include the Balearic and Canary island territories and the self-governing cities of Ceuta and Melilla and also includes 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%).
- ENDESA Red, S.A.U., whose purpose is to distribute electricity to the consumption points and includes, among others, ENDESA Distribución Eléctrica, S.L.U. (100%), and ENDESA Ingeniería, S.L.U. (100%).
- ENDESA Energía, S.A.U, whose main business is the supply of energy to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market. It 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%), which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U. supplies the deregulated markets of Germany, France, the Netherlands and Portugal.

- ENDESA X, S.A.U. (100%), which develops and market new services adapted to trends in the energy market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities in electric mobility, demand management, distributed generation, energy storage and the enlargement of the range of services provided to domestic, industrial and institutional customers.

1.7. Markets supplied

ENDESA generates, distributes and sells electricity and sells gas mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France and the Netherlands.

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:

- **Generation:** ENDESA carries out its electricity generation activities in the mainland system and in Non-Mainland Territories, which include the Balearic and Canary Islands and the self-governing cities of Ceuta and Melilla.
- **Supply of electricity, gas and value-added products and services:** ENDESA markets electricity and VAPS in all of Spain and Portugal.
- **Distribution of electricity:** ENDESA distributes 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) and the self-governing city of Ceuta, covering a total area of 195.487 km² with a total population of nearly 21 million.



1.8. 2019-2021 Strategic Plan; Objectives and Strategy

ENDESA focuses its business on helping to respond to the significant challenges faced by the societies where it operates, from a perspective of creating shared value. As a result, the analysis of the pre-eminent social, environment, economic and ethical trends and the significance of these matters for its stakeholders are essential to guide the company's Strategic Plan.

In this regard, Endesa's 2019-2021 Strategic Plan establishes the following strategic pillars within the framework of a business plan focused on growth: Decarbonisation, smart grids, customer value and increased efficiency via digitisation. These strategic pillars are directly associated with the Sustainable Development Goals of the United Nations, as ENDESA is not only aware of the very relevant role played by companies in the compliance of these goals, but also of the business opportunities they represent:

→ **Decarbonisation:** As an example of its commitment to decarbonisation of the industry, the company has established its goal for 2050 of 100% electricity production with zero emissions. The interim goals of reduction involve lowering CO₂ emissions to 27 MtCO₂ in 2020, versus those of 51 Mt in 2005 (reduction of 47% vs.

2005) and reducing the same to less than 20 MtCO₂ in 2030 (reduction of 44% vs. 2020).

This strategic pillar is embodied in:

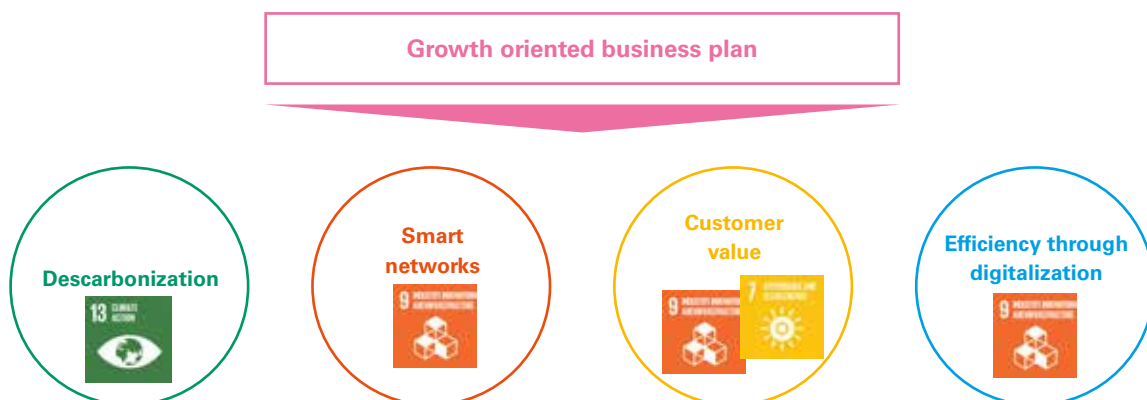
A significant increase in renewable energies: In the generation mix, renewable generation is our primary platform for growth.

Maintaining a sufficient number of thermal generation plants to provide low-emission and competitive support, guaranteeing safe supply and reducing the impact on the environment by enhancing the favourable impact of necessary environmental investments.

As regards conventional generation, the Plan envisions updating environmental requirements and improving plant availability (average availability of 90% in 2021), and obtaining sustainable and efficient operation. The Plan anticipates the closure of the Compostilla and Teruel facilities in 2020 and the investment required to fulfil the Directive 2010/75 on Industrial Emissions and the implementation of BREF (best available techniques) in the As Pontes plant. The investment for complying with environmental requirements in the Litoral plant is now complete.

In the Balearic and Canary Islands, the Plan provides for IED investments (Industrial Emissions Directive 2010/75/EU/BREF) in certain installations.

Strategic pillars



And regarding batteries, pilot project in Litoral facility has finished and new projects are in course in As Pontes and Canary Islands.

The goals for 2021 include 6.3 GW in conventional thermal capacity, with a reduction of 2.1 GW vs. 2018, maintaining nuclear capacity at 3.3 GW and off-main-land capacity of 4.3 GW, with a reduction of 0.2 GW compared to 2018.

→ **Smart grids:** The Plan has been drawn up from the conviction that grid digitisation and modernisation are essential for the integration of distributed resources, participation of demand and to ensure proper system operation in a new energy model that increases electrification and distributed generation. In sum, smart grids are considered to offer new opportunities for investment in energy transition. It contemplates increasing the Company's efficiency on the path to excellence and its conversion into a digital grid operator. Therefore, the Plan continuously focuses on operating efficiency to improve service quality by reducing power disruptions and losses.

After the phase involving deployment of digitisation and grid updating, investments will increase by approximately 100 million Euros, totalling 1.800 million Euros for the 2019-2021 period. Of this amount, approximately Euros 800 million are currently allocated to grid updating and Euros 1.000 million to grid digitisation, including automation, modernisation and other transformations. An additional investment of Euros 100 million in smart meters is included, whereby the total investment amounts to Euros 1.900 million.

The goals for losses in 2021 amount to 8.9% which is an approximate improvement of 5% compared to 2018. Supply interruption is set at 52 minutes, a reduction of 25% with regard to 2018, while improving efficiency (the OPEX ratio drops from €45/customer to €41/customer in 2021).

→ **Customer value** In this context, the customer is called on to play a key and leading role in the penetration of home and industry electrification, distributed genera-

tion, efficient consumption, electric mobility and the rest of the components of the new energy model. This has also been considered a key element in the ENDESA strategy, based on customer value.

As regards customers, the four primary lines of action contemplated in its Strategic Plan 2019-2021 are as follows: to consolidate the energy and gas businesses, implement a strategy based on customer value, drive innovation, new business models and digital platforms and digitise customer-associated processes.

As regards the consolidation of the energy and gas businesses, the 2019-2021 Strategic Plan seeks to maintain the leadership in the electricity business by increasing sales by 3% (up to 106 TWh in 2021) and customers (10.9 million in 2021 vs. 10.8 million in 2018), with a market share of 35%, improving the sustainability of the integrated margin (from approximately €23/MWh of 2018 to approximately €27/MWh in 2021). In addition, the goal for gas is to fortify the Company's position as the second largest gas operator (sales of 90 TWh, with a market share of 16% and a 19% increase in customers to 1.9 million on 2021), increasing the margin resulting from the substantial recovery of fundamental market indicators.

As regards improving efficiency and customer experience, digitisation of customer-associated processes and automation to reduce service costs are essential factors. The 2019-2021 Strategic Plan includes a goal to reduce service costs for electricity and gas customers from €13/customer to €11/customer, with the aim of maintaining stability in the current levels of customer rotation in electricity (slight reduction to 10% in 2021) and gas (at approximately the current 15%). The 2019-2021 Strategic Plan anticipates a growth trend in all digital KPIs:

- > Electronic billing: Customer increase of approximately 40%, reaching 3.9 million in 2021.
- > % of customer digital service: Reach 78% of customers in 2021 (vs. 72% in 2018).



- > Digital contracts: An increase of 19% (4.4 million in 2021 vs. 3.7 million in 2018).

Furthermore, Endesa X promotes key businesses for decarbonisation, such as distributed generation, smart lighting and electric mobility.

Thus, in the area of new businesses, Endesa has established the following goals:

- > For maintenance and repair customers (e-Home) the goal for 2021 in 2.5 million versus 1.8 million recorded in 2018.
- > For energy infrastructure (e-Industries) the goal established for 2021 is 1.300 projects, versus 1.100 in 2018.
- > For points of light (e-City), the goal for 2021 is 130.000 compared to 95.000 in 2018.
- > For charging stations (e-Mobility), the goal for 2021 is 41.000 versus 2.000 in 2018.
- **Efficiency through digitalisation:** Endesa considers digitisation of its entire value chain (generation, distribution, marketing, people) as a key engine to improve efficiency.

The most relevant aspects of this effort are:

- > In distribution, digitisation of system processes and integration, data-driven grids (quality plan, reduction of losses, remote control) and smart meters.
- > In marketing, advanced analyses, new platforms (new CRM) channel digitisation (electronic billing, etc.), new digital billing platform.
- > In generation, predictive diagnosis, digital transformation of employees and control system response.
- > In Endesa X (new businesses), the development of digital platforms.

For further details concerning the 2019-2021 Strategic Plan, please refer to the company's website at <https://www.endesa.com/es/sobre-endesa/a201610-estrategia-plan-estrategico.html>

It is therefore clear that Endesa's Strategic Plan seeks to strengthen its position as a leader in the Iberian market and obtain sustainable, long-term profitability for the shareholder, while contributing to achieving the Sustainable Development Goals of the United Nations (SDG), to which it made a public commitment in 2016:

- (Fight Against Climate Change): 100% decarbonisation of the energy mix in 2050 with a road map that sets out clear objectives for 2020, 2030 and 2040.
- **SDG 9** (Innovation and Infrastructure): Investment of Euros 1.3 billion over the period of the 2019-2021 Strategic Plan to be at the forefront of future energy developments through digitalisation and Endesa X.
- **SDG 7** (Clean and Accessible Energy): Electricity supply to all vulnerable customers, through the implementation of the new social bonus and the adaptation of the agreements signed with local authorities to guarantee electricity supply to low-income customers.

Endesa also contributes to the commitments made by its parent company in relation to SDG 4 (Education), to which it has made a public commitment to reach 164.000 beneficiaries in the 2015-2020 period, and SDG 8 (Socioeconomic Development), where the company has publicly undertaken to reach 241.000 beneficiaries in the same period through the Company's social initiatives.

Thus, Endesa's Strategic Plan is focused in creating sustainable, long-term value.

1.9. Factors and trends that can affect our progress in the future

See the chapter on Risk Management in this document.

2. ENDESA dimensions

	2016	2017	2018
Gross Operating Profit (EBITDA) (millions of euros) ¹	3,432	3,542	3,627
Profit after tax and non-controlling interests (millions of euros))	1,411	1,463	1,417
Share Capital (millions of euros)	1,271	1,271	1,271
Non current financial debt (millions of euros)	4,223	4,414	4,975
Final headcount (Employees)			
Spain and Portugal	9,694	9,706	9,763
Gross installed capacity (MW)			
Spain and Portugal	23,691	23,678	23,766
Hydroelectric	4,765	4,752	4,753
Conventional thermal	8,130	8,130	8,077
Nuclear termal	3,443	3,443	3,443
Combined cycle	5,678	5,678	5,678
Renewables and cogeneration	1,675	1,676	1,815
Electricity generation (GWH)			
Spain and Portugal²	69,831	78,648	74,193
Hydroelectric	7,173	5,004	8,339
Conventional thermal	28,100	31,906	28,997
Nuclear termal	25,921	26,448	24,067
Combined cycle	7,425	11,849	8,957
Renewables and cogeneration	1,212(5)	3,441	3,833
Electricity sales to end customer (GWH)			
Spain and Portugal	93,490	96,513	89,639
Regulated price	13,815	12,919	12,356
Deregulated market ³	79,675	83,594	77,283
Number of electricity customers⁶ (thousands)			
Spain and Portugal	11,016	10,848	10,754
Regulated price ⁴	5,593	5,255	5,029
Deregulated market ³	5,423	5,593	5,725
Gas sales (GWH)			
Total⁷	78,129	79,834	86,729
Deregulated market	48,270	46,578	47,810
Regulated market	1,464	1,372	1,430
International market	19,474	24,523	25,270
Wholesale business	8,921	7,361	12,219
Numer of gas customers⁸ (thousands)			
Total	1,538	1,560	1,604
Regulated market	262	246	233
Deregulated market	1,276	1,314	1,371
Energy distributed² (GWH)			
Spain and Portugl	115,602	117,961	117,029
Tax information			
Public subsidies received (million €)	334	315	287
Contributions to foundations and non-profit organisations (million €)	—	3,710	4,942

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 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. by ENDESA Generación, S.A.U., on 27 July 2016.

⁶ Supply points

⁷ Excluding own-generation consumption.

⁸ supply points.





2.2. Tax information by country

(Data in millions of €)						
Country	Total income	2017		Total income	2018	
		Accounting profit before tax	Income tax		Accounting profit before tax	Income tax
Spain	18,238	2,020	316	18,323	1,798	338
Portugal	1,123	-85	13	1,079	19	
France	428	-41	21	554	-7	-12
Germany	268	-2		239	5	
Netherlands		1			1	
Morocco		7			2	

Note:

Book results have been determined on a consolidated basis.

The figure for Income Tax corresponds to the income tax expense paid in the period of reference, taking into consideration the possible payments derived from inspection reports. It should be noted that ENDESA, S.A. and its wholly-owned subsidiaries residing in Spain form part of the consolidated tax group of which Enel S.p.A. is the parent, and represents the Enel Iberia, S.L. tax group in Spain. Therefore, the figure that appears is the amount paid by Endesa, S.A and its subsidiaries included in the tax group, to Enel Iberia, S.L., which declares and settles the tax group's tax payments with the Tax Agency, as per tax regulations. The amount paid to the tax authorities is taken into account for the rest of the subsidiaries in the consolidated group that do not form part of the tax consolidation group.

Morocco is consolidated within the Group using the equity method and, therefore, book results consist of the results obtained after taxes based on the percentage shareholding held by ENDESA.

3. Significant organisational changes

→ The acquisitions of the following companies, all of which develop the wind and photovoltaic capacity awarded to ENEL Green Power España, S.L.U. (EGPE) in 2017 capacity auctions:

In 2018, the significant changes at the Company were as follows:

	Acquisition Date	Technology	Companies acquired in 2018			
			% Ownership at 31 December 2018		% Ownership at 31 December 2017	
			Control	Ownership	Control	Ownership
Valdecaballero Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Navalvillar Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Castiblanco Solar, S.L.U.	9 January 2018	Photovoltaic	100.00	100.00	—	—
Parque Eólico Muniesa, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Parque Eólico Farlán, S.L.U.	12 January 2018	Wind	100.00	100.00	—	—
Aranort Desarrollos, S.L.U.	19 January 2018	Wind	100.00	100.00	—	—
Bosa del Ebro, S.L.	21 February 2018	Wind	51.00	51.00	—	—
Tauste Energía Distribuida, S.L.	23 March 2018	Wind	51.00	51.00	—	—
Eólica del Cierzo, S.L.U.	23 March 2018	Wind	100.00	100.00	—	—
San Francisco de Borja, S.A.	23 March 2018	Wind	66.67	66.67	—	—
Energía Eólica Alto del Llano, S.L.U.	11 May 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Campoliva, S.A.U.	17 July 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Sierra del Carazo, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—
Sistemas Energéticos Alcohujate, S.L.U.	18 December 2018	Wind	100.00	100.00	—	—

→ On 3 April 2018, an agreement was signed, through ENEL Green España, S.L.U. (EGPE), for the acquisition of 100% of the share capital of the companies Parques Eólicos Gestinver, S.L.U. and Parques Eólicos Gestinver Gestión, S.L.U.

→ Parques Eólicos Gestinver, S.L.U. has installed wind power capacity of 132 MW, distributed across five wind farms located in the regions of Galicia and Catalonia. Through this acquisition, ENDESA reinforces its presence in the Iberian generation market by expanding the portfolio of renewable assets in its production mix.

→ On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60.0% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists of the generation of electricity through renewable wind technology, and in which it previously held a 40.0% stake. As a result of this transaction, ENDESA took full control of Eólica del Principado, S.A.U. versus the significant influence it had until that date.

→ On 25 July 2018, ENDESA Red, S.A.U. acquired 94.6% of the share capital of Empresa de Alumbrado Eléctrico de Ceuta, S.A., which includes 100% of Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. and 100% of Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U. Subsequently, in November and December 2018, an additional 1.6% and 0.1%, respectively, of share capital was acquired, leaving the shareholding in Empresa de Alumbrado Eléctrico de Ceuta, S.A. at 31 December 2018 at 96.3%.

Empresa de Alumbrado Eléctrico de Ceuta, S.A. has more than 30.000 customers and is the leading electricity distribution and supply company in Ceuta, a region where ENDESA carries out electricity generation activities. Therefore, this acquisition is coherent with the strategy of driving growth in distribution and supply in Spain and Portugal.

ENDESA X, S.A.U. was created on 26 June 2018 to develop and market new businesses adapted to trends in the energy market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities

in electric mobility, demand management, distributed generation, energy storage and the enlargement of the range of services provided to domestic, industrial and institutional customers.

4. Commitment to a sustainable energy model

4.1. Open Power strategic positioning

The encompassing macro-trends (climate change, urban population concentration, empowerment of civil society, technological and digital revolution) has resulted in a profound change in the energy sector in recent years.

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 this change, the Company is situated in a new energy era that is 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 ethical criteria, 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, as evidenced by its *Open Power* strategic positioning and the creation of shared value, ensuring that the activity it carries out has a positive impact on the communities in which it operates, as the best way of guaranteeing return for its shareholders in the short, medium and long term.

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.

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. Its compliance is expressly supported by the Company's senior management, it 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. 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.

5. Dialogue with stakeholders

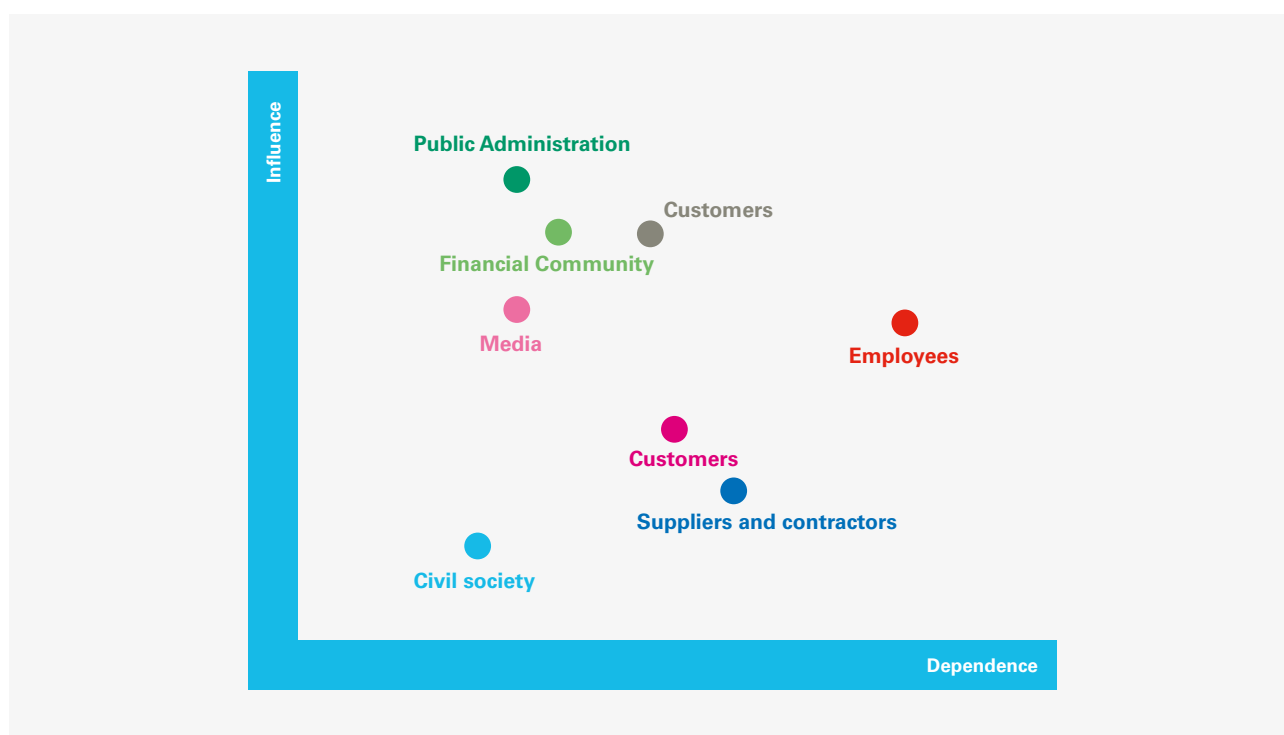
The stakeholders and their expectations are the foundation from which ENDESA articulates its sustainability strategy and serve to focus its industrial plan and enable it to respond to these needs, reducing risks and making the most of the business opportunities generated by satisfying these expectations. 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.

Each year, ENDESA staff and business lines conduct a global and territorial review of the list of stakeholders to ensure that all relevant stakeholders are taken into consideration. They also review the classification and cataloguing of the same. 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.

These priorities are established according to three variables: the level of dependence on the Company's activity, the ability to influence the Company's decision-making process and the level of special and immediate attention required by the stakeholder. In 2018, 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.

Stakeholders	Main communication channels
Public authorities	<ul style="list-style-type: none"> → Direct contacts → Forums and symposiums → Working groups
Shareholders and financial institutions	<ul style="list-style-type: none"> → 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 → Notification to the voting advisers
Customers	<ul style="list-style-type: none"> → Sales offices → Sales managers → Web channel → Customer services centres → Forums and working groups → Mobile application → Social networks
Business community	<ul style="list-style-type: none"> → Direct contacts → Meetings and working groups → Forums and symposiums
Media	<ul style="list-style-type: none"> → Direct contacts → Press conferences → Forums and symposiums → Social networks
Our people	<ul style="list-style-type: none"> → Intranet and internal social network → Forums and working groups → Knowledge interviews → Breakfast with the CEO → Contact mailboxes → Corporate magazine and newsletters
Civil society	<ul style="list-style-type: none"> → Direct contacts → Working groups → Forums and symposiums → Web Channel → Web and twenergy → Social networks → Ethics channel → Sustainability mailbox
Suppliers and contractors	<ul style="list-style-type: none"> → Direct contacts → Web channel → Committees → Forums and symposiums → Working groups

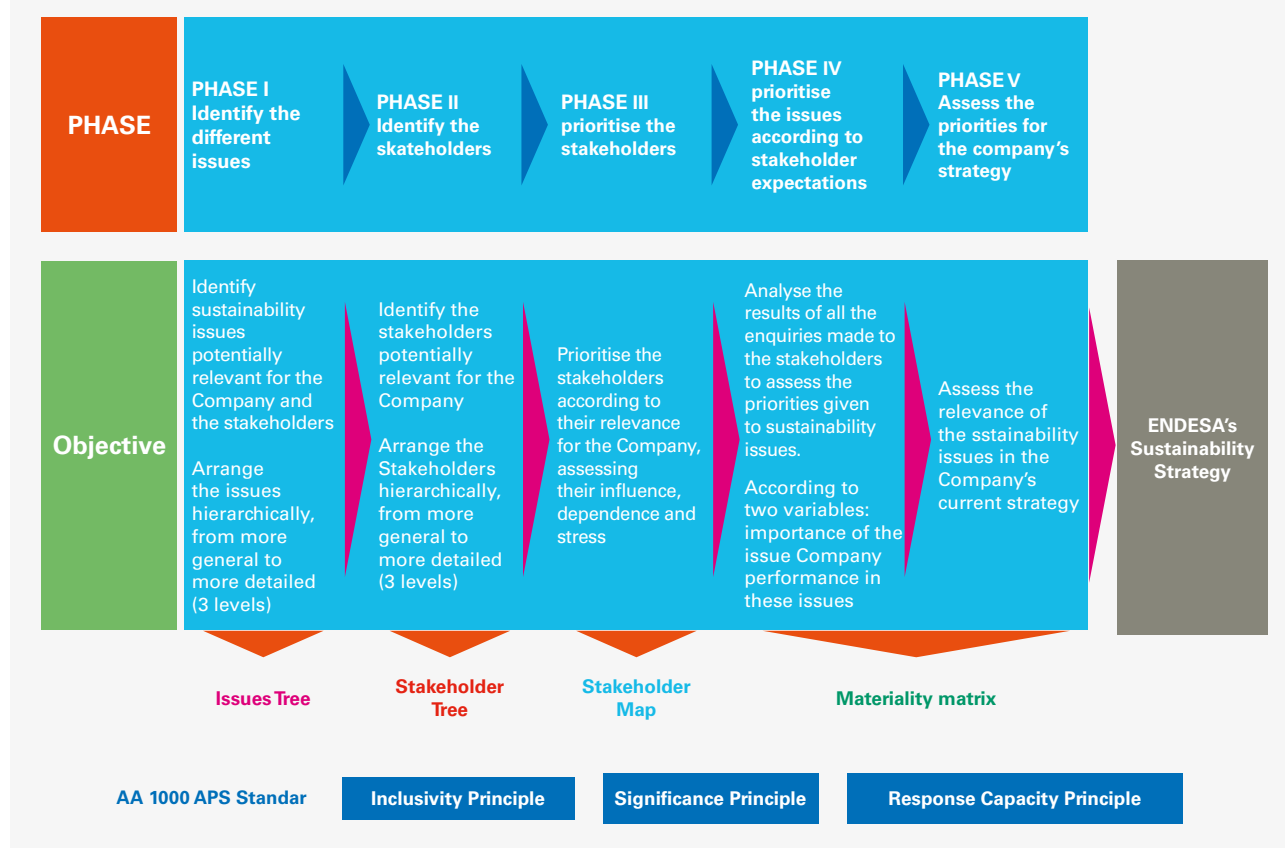
6. Materiality study: Identification of priorities based on dialogue with stakeholders

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 international standards, which aim to guide the Organisation in the strategic management of interaction with its stakeholders to identify prioritise and improve long-term performance through compliance with a series of principles: inclusivity, significance and response capacity.

Identification process for priority issues



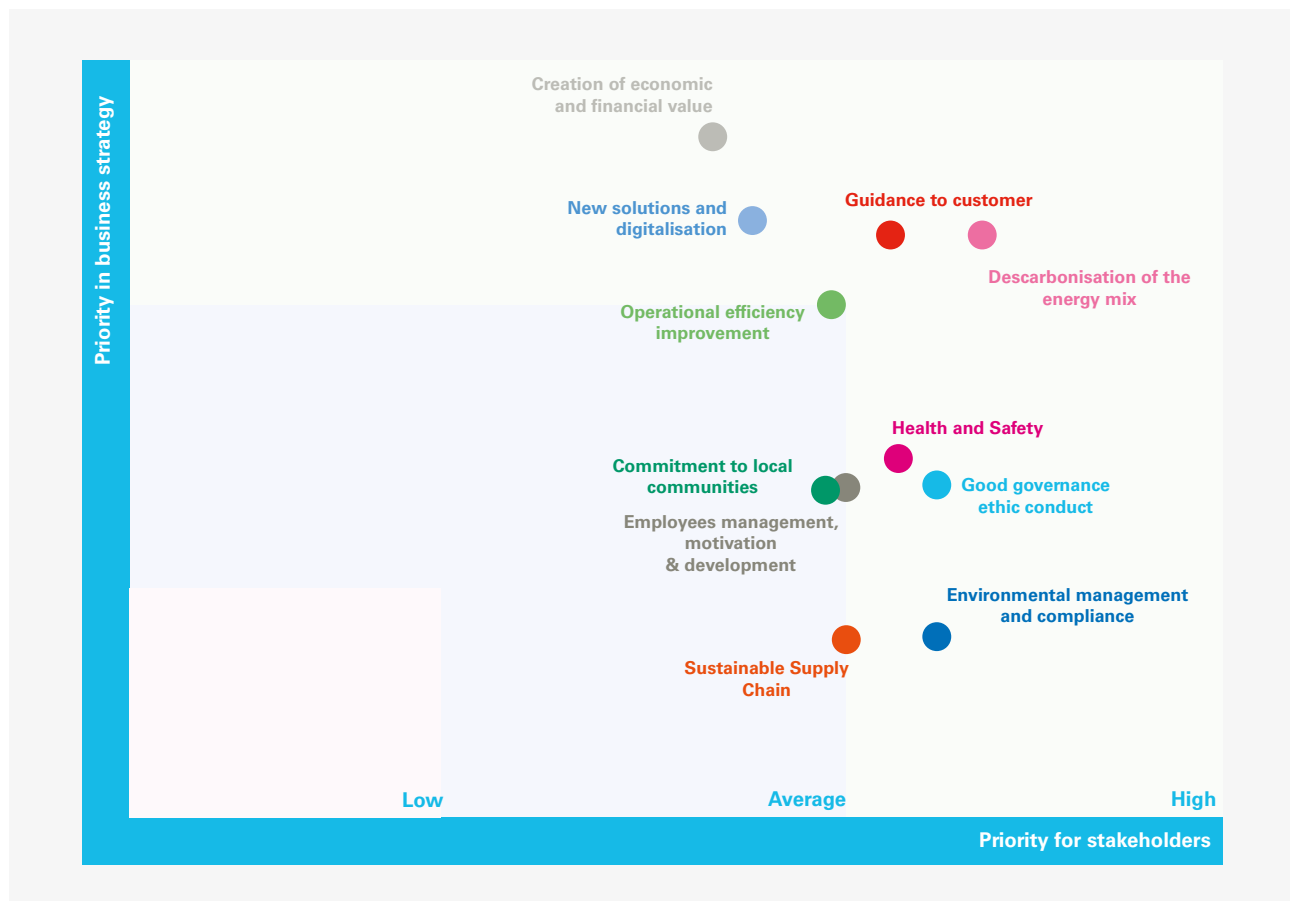


6.2. 2019 materiality study - Consult stakeholders on economic, environmental and social matters

In 2018, ENDESA performed a materiality study, which served as a base to define the priorities of its 2019-2021 Sustainability Plan. In 2018, ENDESA did this by conducting an ad hoc analysis (focus group for social entities), updating the information of trend and investor analyses and other reports (such as the corporate reputation report and the customer satisfaction survey, among others) and completed this analysis with the result of the work performed in 2017, amounting to more than 4.000 sources and representatives of 18 different stakeholders, undertaking the following analyses and tasks:

- 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.
- Focus group on more than 80 social organisations at the national and local level



- Analysis of existing reports that include matters relating to the Company's sustainability: Corporate reputation report, employee climate survey and customer satisfaction survey.

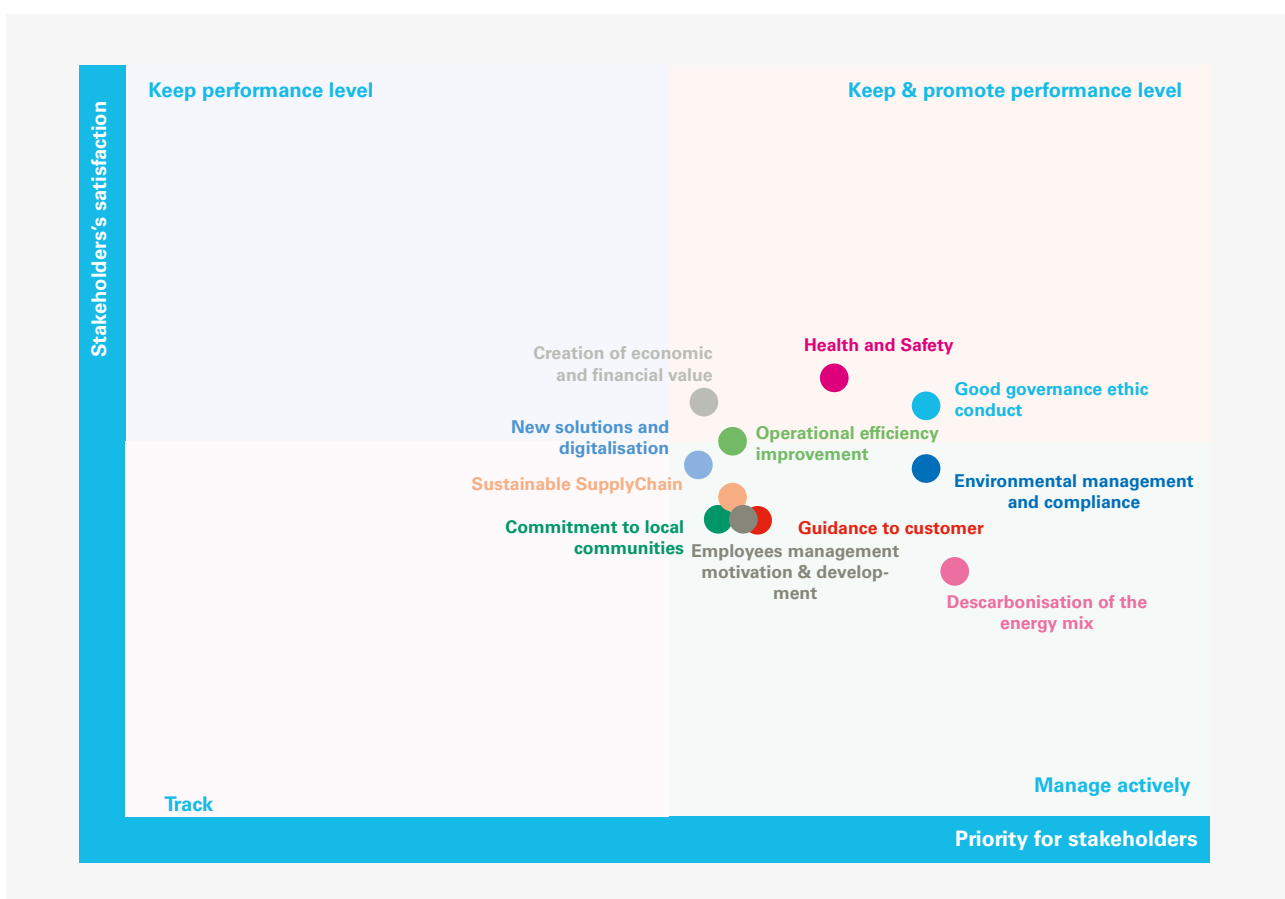
The results of the combined analysis of the relevance in the business strategy and priority for the stakeholders for each item are expressed in the following chart:

As shown in the previous chart, among the most significant matters for the Company's sustainability are, as have appeared in previous years 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, the level of satisfaction of the stakeholders with respect to these matters was analysed, identifying decarbonisation and guidance to the customer among the matters that must be managed more actively.

To identify the matters on which ENDESA must focus its actions in coming years to guarantee the creation of shared value and improved generation of benefits for society and its shareholders in the long term, the Company has combined the results of the previous analysis with the business model, the sector and the expectation of its stakeholders. The results have allowed the Company to identify the following areas of action:

- *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. To this end, it is essential to continue working on improving social perception to continue competing in the new energy scenario and to implement the shared value creation model in all the phases of the Company's operations life cycle.
- *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 human rights, the development of human capital, occupational health and safety, environmental management, cybersecurity 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, human rights, 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 2018-2020 Sustainability Plan (PES)

For ENDESA, sustainability has played a key role in defining its business focus for years. 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.

The materiality analysis of ENDESA's Sustainability Plan is used to shape the strategy defined in the Industrial Plan. Indeed, ENDESA's Sustainability Plan (PES) 2018-2020 defined 4 priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan: growth through low-carbon technologies and services, optimisation of assets and innovation, involvement and inclusion of local communities and involvement and inclusion of our people.

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: good governance and ethical conduct, occupational health and safety, environmental sustainability and responsible supply chain, oriented towards the creation of economic and financial value and with two transversal drivers: digitalisation and a customer-centric approach.

With more than 100 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2018-2020 Sustainability Plan (PES), and has achieved overall compliance of 94%.

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 2018-2020 Sustainability Plan (PES) in this Non-Financial Statement (see following headings) and in the 2018 Sustainability Report, which will be available for consultation on its website www.endesa.com.

7.2. ENDESA's 2019-2021 Sustainability Plan (PES)

On 21 November 2018, ENDESA presented the update of its 2019-2021 Strategic Plan to the investment community. Moreover, and with the aim of achieving 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 2018 for the design of its new 2019-2021 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.

Structure of ENDESA's 2019-2021 Sustainability Plan

The new ENDESA 2019-2021 Sustainability Plan (PES) continues along the path to promote the creation of sustainable, long-term value by establishing:

Four strategic priorities:

→ **Growth through technology and services low in carbon:** Starting with the road map toward decarbonisation in 2050 set forth in previous plans, the new plan increases its ambition to achieve the goals of developing renewable energies and complementary technologies that will spur the new energy model, such as storage capacity.

→ **Improved operations for quality service:** The innovative and open focus of the PES includes lines of action intended to promote quality service and thereby develop sustainable energy solutions aimed at responding to

new customer requirements, as well as at maintaining a high level of excellence in customer relations and service quality. Likewise, it maintains the objectives aimed at promoting efficiency throughout the value creation chain and promoting digital transformation in the 3 main areas it is focused on: generation and distribution assets, customers and the development of an internal digital culture. Furthermore, it includes action lines in the area of cybersecurity.

→ **Involvement and inclusion of local communities:**

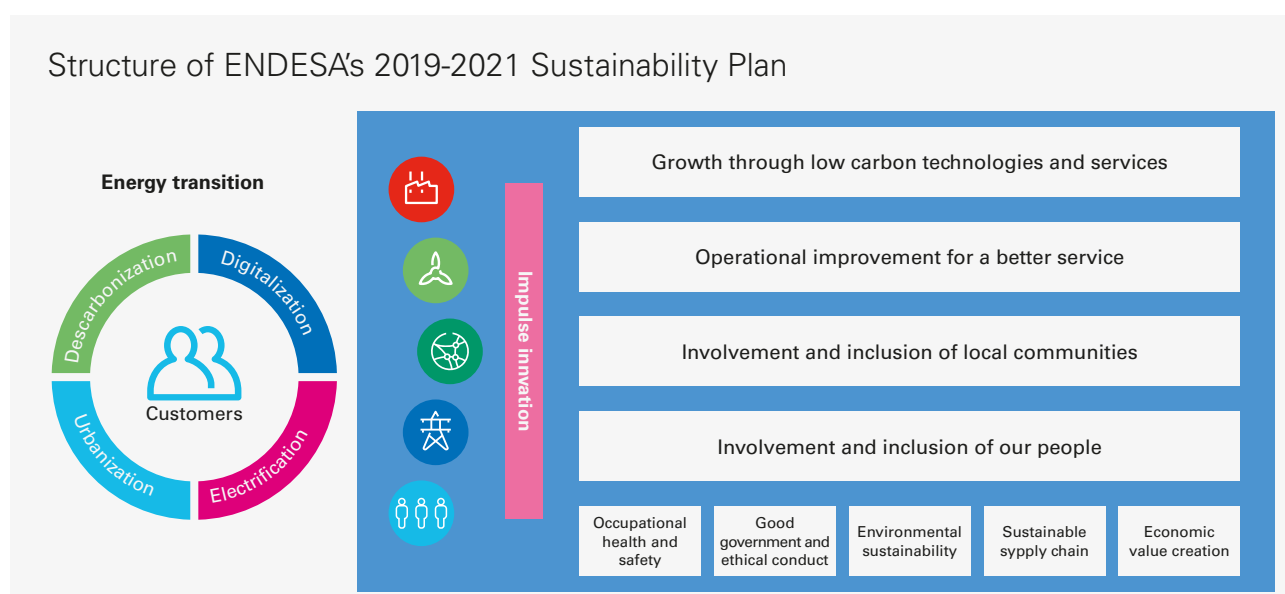
The ENDESA Sustainability Plan includes new objectives aimed at promoting socio-economic development, education and access to energy as fundamental axes of its commitment to the local communities and to guarantee the implementation of the shared value creation focus in the development of its activities.

→ **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.

Five basic pillars:

→ **Good governance and ethical conduct:** The ENDESA 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 ENDESA Sustainability Plan sets objectives aimed at reducing the accident rate of employees and contractors, and at promoting healthy habits.
- **Environmental sustainability:** The ENDESA Sustainability Plan sets objectives to reduce the Company's environmental footprint throughout the whole scope of its activity.
- **Sustainable supply chain:** The ENDESA 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 ENDESA Sustainability Plan includes the financial objectives defined in ENDESA's 2019-2021 Strategic Plan.

Therefore, ENDESA's 2019-2021 Sustainability Plan reassures ENDESA's commitment to sustainability Plan, set forth in the more than 125 quantitative management objectives it contemplates. Many of these originate from the previous plan, although they have been reviewed and, in many cases, are more ambitious, with the addition of new objectives to respond to the new requests from stakeholders and from the energy sector.

The most significant objectives of the ENDESA 2019-2021 Sustainability Plan are detailed in the following headings of this Non-Financial Statement, while all the objectives will be detailed in the 2018 Sustainability Report and on the corporate website 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 interlinked 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 goal is to generate an exhaustive list of risks (complete coverage) based on events that could prevent, impair or delay the meeting of targets through the coordinated and efficient participation of all levels of the Company.
- **Measurement.** The objective of measuring parameters that enable aggregation and risk comparison is to obtain a global quantification of risk exposition assumed, including all ENDESA's positions.
- **Control.** The objective of risk control is to guarantee that risks assumed by ENDESA fit to targets defined, in the end, by ENDESA's Board of Directors.



→ **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 pre-disposition.

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. Criminal and Anti-Bribery Regulatory Compliance Policy

Organic Law 5/2010, which amends Organic Law 10/1995 of 23 November of the Criminal Code, established a range of offences applicable to legal entities and referred to the need to establish surveillance and control measures for their prevention and detection. This legal regime was reformed by Organic Law 1/2015, of 30 March, detailing the requirements that allow legal entities to prove their diligence in the field of criminal prevention and detection.

In accordance with the provisions of this Organic Law, ENDESA has developed certain internal rules that have satisfied the need for adequate control and management systems applied in the area of criminal detection and prevention, particularly in conduct to restrict bribery.

Endesa's Criminal and Anti-Bribery Regulatory Compliance Policy (hereinafter, "Compliance System") includes a comprehensive body of provisions, the basis of which is the Criminal and Anti-Bribery Regulatory Compliance Policy, which respects Spanish legal requirements in this area and is also sufficient to meet the expectations reasonably placed on organisations that operate with the highest levels of commitment in advanced markets.

The main activities that take place in Endesa for the effective application of the Compliance System are risk assessment and control and surveillance of the same, thereby guaranteeing its design and operation.

The Criminal and Anti-Bribery Regulatory Compliance Policy was approved by the Board of Directors on 6 November 2017 and supplements the Risk Control and Management Policy; the former establishes the general principles of the Compliance System, which underlies the contents and application of all corporate internal rules, as well as the conduct of the Organisation.

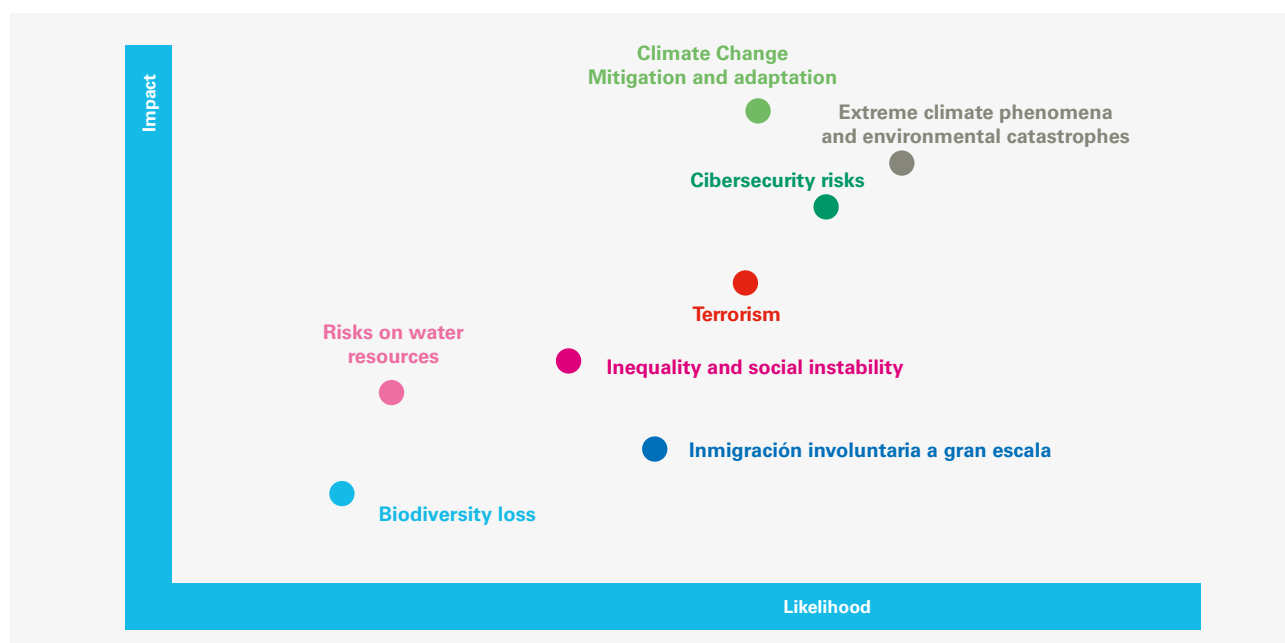
3. Main sustainability risks - Impacts, risks and opportunities related to environmental and social matters

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 Control and Management System and are supervised by the Board of Directors' Audit and Compliance Committee (CAC).

In 2018, ENDESA updated the identification of emerging sustainability risks with a medium- and long-term impact related to certain dimensions involving sustainability, as it has done annually and systematically in the past. The objective is to analyse the impact on the business and to establish the measures required for their control and prevention.

To do so, ENDESA used as reference the identification of global risks prepared by the World Economic Forum after consulting with 750 experts from the worlds of business, universities, civil society and the public sector on the perception of global risks over a future period of 10 years. 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.

The resulting risks map does not change significantly from that of the previous year, as no new significant macro-trends have been 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).	<p>ENDESA has established a road map towards decarbonisation in its energy mix in 2050, which implements interim CO2 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.</p> <p>An adaptation project has been carried out, which takes into consideration both internal vulnerability assessment and the valuation of future benefits and opportunities. The conclusions of this project show that the risks to which the business lined would be subject to can be classified as low and very low, in addition to which they are expected to materialise slowly and in the future.</p>
Extreme climate phenomena and environmental catastrophes	<p>Climate change is generating phenomena associated with the increased occurrence and intensity of adverse meteorological phenomena (floods, storms, etc.).</p> <p>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.</p>	<p>Incidences on distribution grids and on generation plants as a result of adverse meteorological phenomena.</p> <p>Environmental penalties arising from the potential causing of environmental catastrophes in the operation of electricity plants or of the distribution grid (fires, radioactive emissions).</p>	<p>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.</p> <p>Furthermore, the Company participates actively and continuously in both national and international initiatives and the development of studies and projects that aim to gain in-depth knowledge of the assessment of the impact of climate change on infrastructures and thereby establish measures to adapt and minimise risks.</p> <p>It also prepares its facilities for possible events that may derive from extreme of catastrophic climate phenomena. Among other actions, in 2018 it completed the deployment of emergency plans for hydroelectric dams.</p> <p>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.</p>
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 cybersecurity 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. It also conducts training and awareness programmes in the use of digital technologies for its employees, at both the professional and individual level 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 has reached agreements with the public authorities to avoid the cut-off of supply to vulnerable customers and thereby reduce the risk of non-payment. It also conducts programmes to facilitate access to energy of underprivileged groups (energy volunteer programmes, prepayment systems)

Risk	Description	Potential impact on ENDESA	Main management and mitigation measures
Inequality and social instability	<p>Inequality is increasing worldwide which, in the case of Spain and Portugal, is accentuated by the high levels of unemployment. 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.</p>	<p>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. 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 and develop more participative relationship models with society.</p>	<p>ENDESA is implementing different measures to facilitate the access to energy of vulnerable groups.</p> <p>Furthermore, the Company is implementing a shared value creation methodology in the areas in which it carries out its local operations to ensure that it has a positive impact on local communities and contributes in the response to the challenges they face, among which are unemployment and the inequality and social instability that this leads to.</p>
Loss of biodiversity	<p>Due to increased demographic pressure and human activity, characterised by a high consumption of natural resources, ecosystems are losing biodiversity.</p> <p>Due to increased demographic pressure and human activity, characterised by a high consumption of natural resources, ecosystems are losing biodiversity.</p>	<p>Increased environmental requirements to develop new electricity generation and distribution projects.</p> <p>Increased environmental requirements to develop new electricity generation and distribution projects.</p>	<p>Within its Biodiversity Conservation Plan, ENDESA develops projects for the protection, preservation and value enhancement of biodiversity, promotes the increase of scientific knowledge about it, searches for synergies that help to preserve it and develops tools that help understand the interaction of biodiversity and its own activity.</p> <p>Within its Biodiversity Conservation Plan, ENDESA develops projects for the protection, preservation and value enhancement of biodiversity, promotes the increase of scientific knowledge about it, searches for synergies that help to preserve it and develops tools that help understand the interaction of biodiversity and its own activity.</p>
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. 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 society:

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.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 was 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.

Given the importance that this matter has for ENDESA, the entire process was submitted to the Audit and Compliance Committee (CAC) on 29 January 2018 to inform it of the most significant results of the due diligence process and the plan of action that had been designed, for the purpose of monitoring the process annually. Likewise, in its meeting of 28 January 2019, the CAC was informed of the actions taken in 2018 to comply with the mentioned action plan.

2.1. Country risk level 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, customers 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 of ENDESA's business activity. Risk management aspects and mechanisms

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 was 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, at the time of implementation of the due diligence process, ENDESA already had 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 and identified in 2017 are summarised below:



Matters	Management and maturity level at ENDESA1	Risk management mechanisms	
Area: Labour practices			
Freedom of association and collective bargaining	Robust	More than 90% of the workforce is covered by collective bargaining agreements with the various syndicated organisations and adjusted to covenants in effect and ratified by Spain with the International Labour Organisation (ILO). The functions of these organisations and the right to union activities are explicitly included in the collective bargaining agreements.	
Rejection of forced or mandatory labour and child labour	Robust	Management systems and human rights procedures guarantee the absence of minors in the workforce. The youngest employee at the time the process was performed was 22 years old. At 31 December 2018, 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.	
Area: Communities and societies			
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 is certified with the UNE 19601:2017 standard. In addition, 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.	

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	<p>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.</p> <p>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.</p>
Fuel provision	<p>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.</p> <p>Likewise, in recent years, the civil society and investors have 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 power 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.</p> <p>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.</p>
Responsible Relations with the customer	
Privacy and communications	<p>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.</p> <p>With regard to personal data protection, ENDESA has set up appropriate surveillance and review systems and mechanisms to comply with the Data Protection Law.</p> <p>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.</p>
Access to energy of vulnerable customers	<p>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.</p> <p>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.</p> <p>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.</p> <p>Furthermore, the Company performs different procedures aimed at promoting energy efficiency and savings in the electricity bill of this type of group.</p>



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 was defined that contains 27 actions, to be developed for 2018 and subsequent years, monitoring of which was submitted to the Board of Directors of ENDESA, S.A. through the Audit and Compliance Committee.

Listed below are the main opportunities for improvement identified and the actions carried out in the action plan submitted in detail to the Audit and Compliance Committee (CAC) on 28 January 2019. The chart shows that, although deployment of the action plan was intended for 2018 and subsequent years, at 31 December 2018, 90 of the objectives had been achieved and the remainder of the actions is expected to be deployed throughout 2019:

Area of improvement	Main procedures	Status at 31 December 2018
Reinforce and spread ENDESA's commitment to human rights, both to external stakeholders and employees Reinforce and spread ENDESA's commitment to human rights, both to external stakeholders and employees	<ul style="list-style-type: none"> > Inclusion of the human rights policy in all internal policies. and preparation of an organisational procedure for the management of due diligence processes. > Publication of ENDESA's commitment to human rights and the procedures being conducted by it. 	<ul style="list-style-type: none"> > Review of all the operational instructions since 2015, including those approved in 2018. > Procedure designed and expected to be approved at the beginning of 2019. > Communication of the human rights policy and an intense communication campaign between September and December via the Intranet.
Promote, among employees, the integration of human rights in ENDESA's business activities	<ul style="list-style-type: none"> > Training on human rights for ENDESA's workforce. > Fostering of diversity programmes and inclusion and promotion of improved diversity ratios > Improvement of safety rates (frequency, seriousness and fatal accidents) 	<ul style="list-style-type: none"> > Launch of an on-line course intended for 100% of the workforce. Design of 2 additional on-site courses scheduled for 2019. > Improvement objectives included in the 2018-2020 PES. > Improvement objectives included in the 2018-2020 PES.
Strengthen relationships with local communities	<ul style="list-style-type: none"> > Continuation of the implementation of mechanisms and actions to manage relationships with the communities in electricity generation and distribution activities. 	<ul style="list-style-type: none"> > Implementation of a Shared Value Creation methodology in thermal and renewable assets in O&M and adjustment of the methodology for generation and distribution to increase the focus on human rights.
Extend commitment and control to the value chain	<ul style="list-style-type: none"> > Development of methodology for human rights audits to suppliers > Continuation of the extension of human rights assessment criteria in asset purchases. 	<ul style="list-style-type: none"> > Pending implementation after the second quarter of 2019. > Expanded to asset purchase operations (Ceuta Distributor).

Other relevant actions have also been carried out within the due diligence process:

- More information included in the sustainability report
- Inclusion of the relationship with local communities as regards facilities in the function.
- Promotion of measures to prevent discrimination during the screen process (including language in publications,

at least one woman in the group of final candidates, exhaustive reporting on the percentage of women in all the screening stages, etc.)

- Raising awareness in managers of the Company's commitment to minimise the number of overtime hours.
- Inclusion of human rights criteria in the assessment process (vendor rating) of suppliers.
- Inclusion of human rights aspects in the sustainability questionnaire for contractors.
- Communication and publication of the ethics channel to suppliers and contractors.
- New counterparty assessment procedure focusing on human rights for coal suppliers.
- Deployment of the hydraulic dam emergencies plan in 100% of assets.
- Inclusion of a forum on human rights in the focus groups performed with NGO's to prepare the analysis of materiality.
- Launch of a specific channel (sostenibilidad_csv@enel.com) to receive questions, complaints or clarifications regarding projects under development, which will be included in the panel sites at each renewable farm worksite.

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.

The Due Diligence Action Plan also includes the creation of a specific channel (sostenibilidad_csv@enel.com) to receive questions, complaints or clarifications regarding projects under development. The information regarding this channel will not only be available on Endesa's standard communication channels, but also on the panel sites at each renewable farm worksite.

4.1. Complaints regarding violation of human rights. Cases of discrimination and corrective measures taken

In 2018, there were 3 complaints regarding human rights (mobbing or corporate climate and human resources management). All of these were referred to management by a specialist, following the established protocol. Non-compliance was not verified in one case and the other two are undergoing the pertinent investigations, which have not been completed at this time.





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 31-12-2018

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 Damián 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 El 24/03/2009 nombramiento como Presidente.

	Qualities and skills					Diversity			
	Finance and Risk	Engineering	Legal	Management	Strategy	Years holding position	Nationality	Gender	Age
Borja Prado Eulate	✓		✓	✓	✓	11	SPA	H	62
Francesco Starace	✓	✓		✓	✓	4	ITA	H	63
José Bogas Gálvez	✓	✓		✓	✓	4	SPA	H	63
Alberto De Paoli	✓			✓	✓	4	ITA	H	53
Miquel Roca Junyent	✓		✓	✓	✓	9	SPA	H	78
Alejandro Echevarría Busquet	✓			✓	✓	9	SPA	H	76
Maria Patrizia Grieco	✓		✓	✓	✓	1	ITA	M	66
Enrico Viale	✓	✓		✓	✓	4	ITA	H	61
Helena Revoredo Delvecchio	✓			✓	✓	4	ARG	M	71
Ignacio Garralda Ruiz de Velasco	✓		✓	✓	✓	3	SPA	H	67
Francisco de Lacerda	✓			✓	✓	3	PORT	H	58

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 governance) 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, Article 9 of the Board of Directors' Regulations states that *"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, if applicable, 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 approved by the Board of Directors in the former 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 practices of corporate governance) 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 competi-*



veness 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 Policy for the Selection of 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.

1.4. Remuneration of Directors

The remuneration of directors for their role as such is comprised of the following items: a fixed monthly salary and per diems for attendance at each meeting of the Company's management bodies and their committees.

→ The "fixed monthly salary", as per the release date of this report, matches the amount allocated for this item since January 2013, which stands at Euros 15.6 thousand gross. This item also includes Euros 1 thousand gross per month for the positions of Chairman of the Audit and Compliance Committee and of the Appointments and Remuneration Committee and Euros 2.1

thousand gross per month for the position of Coordinating Director.

→ -Per diem for attendance at the meetings of the Board of Directors, Audit and Compliance Committee and the Appointments and Remuneration Committee, which as per the release date of this report continues to be the amount approved by the Board on January 21 2013 and stands at Euros 1.5 thousand gross.

The average remuneration of directors in 2018 for performing their duties as such is detailed below:

	Total Average	Average per man	Average per woman	% difference
Fixed	194.71	197.51	187.71	
Per diem	38.42	42.97	27.05	
Total	233.13	240.48	214.76	12%

The Endesa Board of Directors is comprised of 11 directors. However, the data are calculated for the seven Directors (five men and two women) who receive remuneration for their duties as such. The other four directors (all men) have refused to receive remuneration as directors for their duties as such and therefore have not been included in the calculation so the average is not altered artificially.

Although the amounts of remuneration items are the same for men and women, there is a difference of 12% in average remuneration, due to the number of per diems that correspond to belonging or not to the Board Committees and attending meetings (only one of the female directors forms part of two committees); in addition, this female director does not hold the position of chairman and, therefore, does not receive the corresponding remuneration.

Fight against corruption and bribery

1. Material aspects and objectives

1.1. List of material aspects

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, 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 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 each material aspect – ENDESA's Sustainability Plan (PES)

Through the ENDESA 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 the ENDESA 2018-2020 Sustainability Plan, associated with ethical conduct priorities, as well as the new objectives established in the framework of the new ENDESA 2019-2021 Sustainability Plan.

The complete details of all the integrity and ethical conduct environment objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com



Fulfilment of the main objectives regarding integrity and ethical conduct in ENDESA's 2018-2020 Sustainability Plan (PES)

Area 2018-2020 PES	Description of the objective	2018 objective	2018 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	95%	100%	100%
	A benchmark in the industry and one of the most valued companies for its ethical, upright and flawless conduct (DJSI score)	>95%	96%	100%
	% of verifiable complaints analysed in a period not exceeding 90 days	100%	100%	100%
	Execution of the action plan to comply with the CNMV guidelines on Audit Committees	100%	100%	100%

New objectives regarding integrity and ethical conduct for ENDESA's 2019-2021 Sustainability Plan (PES)

Area 2019-2021 PES	Main objectives	2019 objective	2021 objective
Integrity and ethical conduct	Certification of the Criminal and Anti-Bribery Risk Prevention Model, as per UNE 19601 and UNE-ISO 37001	YES	YES
	% of employees trained in ethical conduct in the last three years	97.5%	100%
	A benchmark in the industry and one of the most valued companies for its ethical, upright and flawless conduct (DJSI score in the Codes of Conduct section)	>95%	>95%
	% of verifiable complaints analysed in a period not exceeding 90 days	100%	100%
	Supervision and annual report of the Criminal Risk Prevention Model to the Audit and Compliance Committee	YES	NO
	HR Due Diligence. Annual monitoring of the action plan by the Audit and Compliance Committee	YES	YES

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

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 which ENDESA 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 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 the internal rules cited above, all of which constitute the ENDESA Group's "Criminal and Anti-Bribery Regulatory Compliance 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 ongoing 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 and Anti-Corruption Model (hereinafter, 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 entities, 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 Secretary of the Board of Directors (who is the Committee Chair), the General Director of Corporate Legal Counsel and Compliance, the Director of Business Legal Counsel and the Director of Human Resources and Organisation.

In 2018, the Supervision Committee met on five occasions and, at those sessions, it monitored the main matters relating to the Criminal Risk Prevention and Anti-corruption 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 General Management of 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 2018 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 Model, through a review of the adequate design and operation and testing of certain control activities,
- The performance of various training and information initiatives for Company employees on the framework of ethical reference and of criminal prevention compliance in force at ENDESA.
- Review and update of the Model to retain 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 and Anti-corruption 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 2018, ENDESA received a total of 8 complaints, either through the Ethics Channel or through other means. Of these, only one was associated with corruption. The investigation of all of them was completed in the same year. Of the complaints received, no cases of non-compliance with the Code of Ethics were verified.

Complaints related with corruption

	2016*	2017*	2018
Conflicts of interest/Corruption	4	3	0
Fraud or robbery of the Company. / Undue use of resources	2	1	1
Total	6	4	1

*The figures for the two previous years have been modified for the following reasons. A complaint was received in December of 2017, which was investigated and closed in 2018. In 2016, the complaints associated with corruption and where non-compliance had been verified were reported. This report expands on those criteria and the attached table includes all the complaints received in matters associated with corruption (whether unfounded or where non-compliance has been verified).

4. Measures to combat money-laundering

Endesa does not fall subjectively within the application of Law 10/2010, dated 28 April on the prevention of money laundering and terrorism financing (Article 2) and other regulations that implement the same, or applicable EC regulations, notwithstanding its absolute respect for the legal provisions in this matter that may be applicable to Endesa's commercial trade.

Notwithstanding the above, Endesa's Criminal Risk Prevention and Anti-corruption Model, which is a structured and organic system of surveillance and control procedures

and activities that are ideal for the prevention of offences, explicitly states the offence of money laundering within its scope of application and is thereby considered an adequate and sufficient measure to prevent these criminal offences, given the change in Endesa's activity. The Endesa Model contemplates 25 specific control activities against the risk of money laundering in the various Group Companies.

As a key element of the Model, Endesa promotes a culture of compliance by training employees in this area. The Company has launched an on-line course on the Model, the contents of which deal with the offences considered by the Spanish Criminal Code to involve criminal accountability for legal entities and focused on those that apply to the context of Endesa, and which include money laundering.

Since October 2017, the Model holds the UNE-19601/2017 certification for "Compliance Management Systems", as well as the UNE-ISO 37001/2017 certification for "Anti-bribery Management Systems".

There are also policies and procedures in place that regulate certain Company processes that may entail risks associated with money laundering, some examples of which are as follows:

- Policy 104 on the analysis of counterparties.
- Policy 162, which applies to all parties subject to scoring and which requires a declaration of integrity from suppliers.
- Organisational Procedure 209, on the verification of supplier trustworthiness in purchasing processes.





Environmental sustainability

1. Material aspects and objectives

1.1. List of material aspects

In 2018, 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 2018 materiality study.

Climate change is currently the primary environmental issue for companies in the energy industry. In 2017, electricity generation in Spain was responsible for 21% of greenhouse gas emissions (GHG)¹, although it should be noted that it was the warmest and second driest year since 1965, which resulted in greater use of thermal power plants. ENDESA is aware of its role in this regard and of its capacity to contribute to achieving a low-carbon economy. Therefore, among its priorities is the gradual reduction of greenhouse gas emissions (GHG) 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 Strategic Plan 2019-2021.

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.

1.2. How the Organisation manages each material aspect – ENDESA's Sustainability Plan (PES)

ENDESA includes the material aspects detected in its sustainability plans and sets quantitative goals focused on promoting excellence in plan management in order to assess the level of commitment and performance achieved.

¹ MITECO: Information note on the Advance of Greenhouse Gas Emissions corresponding to 2017: https://www.miteco.gob.es/es/calidad-y-evaluacion-ambiental/temas/sistema-espanol-de-inventario-sei/notaresultadosavance-2017_tcm30-457778.pdf

Described below is a summary of the degree of fulfilment achieved for the most significant objectives set forth in ENDESA's 2018-2020 Sustainability Plan (PES), associated with the environmental priorities described above, as well as the new objectives established in the framework of ENDESA's 2019-2021 Sustainability Plan (PES).

The complete details of all the environmental objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com

Compliance with the environmental objectives of ENDESA's 2018-2020 Sustainability Plan (PES)

Area	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Decarbonisation of the energy mix	Absolute CO ₂ emissions (Mill. tonCO ₂)	35	31	100%
	Specific CO ₂ emissions (kg/kWh)	0.436	0.418	100%
	Production free from CO ₂ (%)	48%	49%	100%
Reduction of environmental impacts	Reduction of specific SO ₂ emissions (g/kWh)	0.76	0.64	100%
	Reduction of specific NO _x emissions (g/kWh)	1.09	0.95	100%
	Reduction of specific particle emissions (g/kWh)	0.028	0.021	100%
	Specific consumption of water in generation (m ³ /MWh)	0.88	0.80	100%

New environmental objectives of ENDESA's 2019-2021 Sustainability Plan (PES)

Area	Main objectives	2019 objective	2021 objective
Decarbonisation of the energy mix	Absolute CO ₂ emissions (Mill. tonCO ₂)	27.95	24.75
	Specific CO ₂ emissions (kg/kWh)	0.382	0.332
	Production free from CO ₂ (%)	52%	56%
Reduction of environmental impacts	Reduction of specific SO ₂ emissions (g/kWh)	0.61	0.31
	Reduction of specific NO _x emissions (g/kWh)	0.93	0.83
	Reduction of specific particle emissions (g/kWh)	0.020	0.016
	Specific consumption of water in generation (m ³ /MWh)	0.59	0.44

2. Environmental policy

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 key 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.
- Asking contractors, suppliers and business partners to implement environmental policies based on these same principles.

3. Business model: Fight against 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 emissions reduction plan to decarbonise the generation mix by 2050, consistent with the national and European goals set forth in the 2050 Road Map and the 2030 Energy and Climate Package. This Plan contemplates a gradual increase in electricity that is free of CO₂ with the aim of reaching 100% in 2050 and intermediate goals of approximately 55% and 65% of generation mix free of CO₂ for the years 2005, 2020 and 2030, respectively.

Thus, ENDESA's strategy consists in investing in low-coal generation technologies and to increase the value of coal-free energy production. This represents an opportunity for ENDESA. Accordingly, in 2016, ENDESA 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.

To consolidate its commitment with the decarbonisation road map, in its 2019-2021 Strategic Plan, ENDESA has set a goal to increase installed renewable energy capacity by over 30% by 2021, with an associated investment of Euros 2.000 million.

It is important to highlight that the decarbonisation drive in Europe has, to date, focused especially on the energy sector and revealed the need for greater participation of other sectors in these efforts. In line with the above, there has been a growing relevance in policies centred on mitigating Greenhouse Gases (GHG) associated with the transport sector, which is responsible for approximately 27% of all emissions in the European Union. Within this sector, transport by land is the largest culprit, representing more than 70% of all GHG emissions associated with transport in 2016.

In 2018 regulations to distribute the drive were approved to guarantee new emission reductions in sectors outside the scope of the European Union's emission rights trading system for 2021-2030². 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.

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 26% of all emissions, according to the Provisional Results of the Greenhouse Gas Inventory for 2017 published in July 2018 by the Ministry of Ecological Transition (MITECO). 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.

² Regulation (EU) 2018/842 of the European Parliament and Commission, dated 30 May 2018, on binding annual reductions of greenhouse gases by member states between 2021 and 2030 that contribute to climate change, with the aim of meeting the commitments adhered to within the framework of the Paris Agreement and which amends Regulation (EU) 525/2013.

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 electric mobility, smart grids and energy efficiency.

The energy sector is partly responsible for climate change and will also be affected by its influence, as its consequences will affect the entire value chain, from generation to distribution.

Thus, ENDESA integrates these considerations not only in its environmental (and climate) management policy but also as a significant component of Company decision-making, by way of an internal adaptation project that contemplates both assessment of internal vulnerability to identify and prioritise climate components susceptible of generating risks for the Company's activity (generation and distribution) and evaluating future benefits and opportunities.

The conclusions of this project show that the risks to which the business lined would be subject to can be classified as low and very low, in addition to which they are expected to materialise slowly and in the future.

In any event, ENDESA has been working on this matter 2009, through numerous projects that include the analysis of aspects associated with adaptation to climate change, assessing the climate impacts on its facilities (a pioneer initiative for which the former Ministry of Agriculture and Fishing, Nutrition and the Environment (MAPAMA) (currently MITECO) selected the Company as the representative of the energy sector for the ADAPTA I and II initiative; innovation in urban resilience versus climate change (RESCUE), analysis of the implications of global change in the hydroelectric business and surrounding ecosystems, development of early warning systems versus climate change (ANYWHERE, included in the H2020 initiative of the EU), and the analysis and monetising of the effect of climate change on the integrity and operation of electricity distribution infrastructures.



4. Environmental management

4.1. Current and foreseeable effects of company activities on the environment and health and safety

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 the Company from other companies, as it constitutes a basic ethical principle expressly stated in its corporate values.

Through this commitment, ENDESA aims to minimise the impact of its industrial activities on their surroundings. It encompasses initiatives primarily related to combating climate change, exemplary management of waste, emissions, spillages, polluted soil and other potentially harmful impacts.

Environmental management at ENDESA also 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 ENDESA's environmental management, which is fully integrated and aligned with its corporate strategy.

Achievement of the Endesa 2019-2021 Strategic Plan, which bolsters its commitment to decarbonisation by 2050, will allow for a reduction of the impact of the Company's activities on the environment.

4.2. Environmental evaluation or certification process

ENDESA is committed to achieving excellence in the environmental management of its activity throughout the entire value chain. To do so, its 2018-2020 Sustainability Plan maintained its goal of retaining certification in the ISO 14001 International Standard for 100% of its generation and distribution facilities; this goal was met in full in 2018 and continues present in the new 2019-2021 ESP.

4.3. Resources dedicated to the prevention of environmental risks

ENDESA dedicates significant investment to achieve environmental management excellence. In 2018, ENDESA invested Euros 69 million in environmental initiatives, increasing cumulative total investment by 4.2% in 2018.

5. Key performance indicators

The following sections show the performance of the most representative environmental indicators affecting ENDESA's business. Performance in 2018 has been positive. Although there is a reduction in absolute values due to less operation of thermal power plants, there is also a reduction in specific values, resulting from the Company's investments focused on reducing the environmental impact of its activity.

5.1. Emissions

5.1.1. Greenhouse gas (GHG) emissions

The drop in CO₂ emissions is due to lower levels of operation in 2018 of thermal power plants due to high rainfall for the year.

CO₂ emissions in the electricity generation process

CO₂ emissions thermal generation facilities

Year	Absolute (tonnes)	Specific (kg/kWh)
2016	29,089,037	0.418
2017	34,517,220	0.439
2018	30,979,870	0.418

Emission data for 2018 were extracted from the latest Annual Notification Report of each of ENDESA's thermal power plants, as per the version available at the date of preparation of this Non-Financial Statement. These 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 administrations 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.

Scope 2 of the carbon footprint includes the technical losses that occurred during electricity distribution and not generated by the Company.

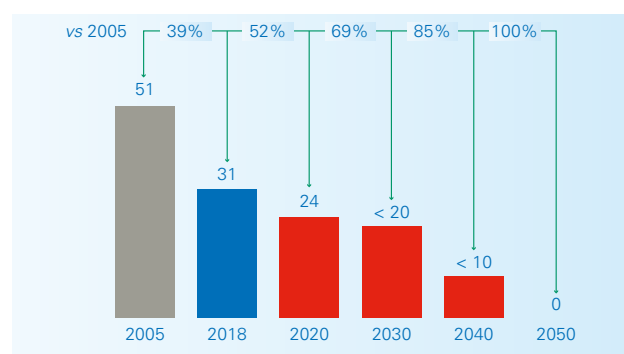
Scope 3 of the carbon footprint includes emissions that are not produced by sources controlled by the ENDESA, but are a result of its activity. Notable among the emissions included in this scope are those derived from the use of marketed natural gas.

The 2018 emission data of the three scopes 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 14064 standard. The data for 2016 and 2017 have already been verified.

Scope 1,2 and 3 CO₂ emissions

Year	CO ₂ (t) Scope 1	CO ₂ (t) Scope 2	CO ₂ (t) Scope 3
2016	29,354,064	842,996	20,349,507
2017	34,801,749	707,019	35,237,225
2018	31,698,840	969,700	33,885,720

Absolute CO₂ emissions



ENDESA has an ambitious emissions reduction plan for decarbonisation of the generation mix by 2050, which contemplates a gradual increase in the production of electricity free of CO₂ to achieve 100% in 2050. It establishes absolute emission reduction goals for CO₂ of 52% and 69% for 2005, 2020 and 2030, respectively.

5.1.2. Polluting atmospheric emissions

In addition to the reduction in pollutant emissions as a result of lower levels of operation of the thermal power plants, there is a significant drop in specific emissions due to the efficiency and environmental protection measures implemented at the facilities.



Evolution of ENDESA'S absolute SO₂, NO_x and particle emissions

	2016	2017	2018
SO ₂ (tonnes)	61,388	60,287	47,845
NO _x (tonnes)	83,011	83,842	70,313
Partículas (tonnes)	1,556	1,844	1,532

Evolution of ENDESA'S specific SO₂, NO_x and particle emissions

	2016	2017	2018
SO ₂ (gSO ₂ /kWh)	0.88	0.77	0.64
NO _x (gNO _x /kWh)	1.19	1.07	0.95
Partículas (g partículas/kWh)	0.02	0.02	0.02

Measures to prevent or reduce emissions that affect air quality

ENDESA has put in place important initiatives and procedures in plants, focused on complying with the emission levels required by industrial emission regulations, such as:

- Denitrification (SCR) and desulphurization systems were installed in the Litoral de Almería thermal power plant in 2016. The plant is now capable of reducing its emissions to the future levels of emissions established by the industrial emissions regulation and constitutes a benchmark for best practices in this regard. As regards specific emissions, reductions are nearly 70% of SO₂ emissions and 30% in NO_x.
- Denitrification techniques (SNCR) are in process in the As Pontes thermal power plant, with urea injection and wet desulphurization. These systems were designed not only to comply with DEI limits but also to attain BREF (Best available techniques) values, which involves very significant reductions in emissions of SO₂ and NO_x compared to current amounts. These actions are scheduled to begin in 2019.
- Also, in relation to 2010/75 Directive on Industrial Emissions and Big Combustion Facilities BREF, abatement

measures are under study and authorization for certain groups on Mahon, Barranco de Rirajana, GGrandadilla power plants and also operating limits for some facilities as Jinamar and Candelaria power plants.

In addition to the large investments intended to mitigate emission levels, ENDESA facilities continue to carry out small modifications within the continuous improvement process to optimise emission control systems and reduce emissions. The most significant actions in 2018 were as follows:

- In automated measuring systems: ENDESA has continued to calibrate and verify automated measuring systems in its facilities under Standard EN-UNE 14181. In 2018, new automated atmospheric emission measuring systems were put into operation in stacks at 15 combustion facilities: 10 turbines in thermal power plants in the Canary Islands and 5 turbines in the Balearic Islands. Likewise, in 2018 an investment was approved for the installation and commissioning of four new independent automated atmospheric emission measuring systems for each of the motors at the Ibiza plant, with the aim of increasing, if possible, the degree of emission control and efficiency of the plant's generation units.

The result of the implementation of these measures can be seen in the results obtained for the environmental indicators associated with atmospheric contamination in 2018.

5.2. Consumption

5.2.1. Fuel consumption

The main materials used to produce electricity are fuels and these are considered to be non-renewable. Lower consumption of nearly all fuels has resulted from reduced operation of the thermal power plants.

Consumption of materials (weight/volume)

Fuel type	2016	2017	2018	units
Coal	10,304	12,245	11,409	kt
Fuel oil	1,427	1,448	1,325	kt
Diesel	758	788	809	kt
Natural gas	989	1,797	1,356	106 m ³

5.2.2. Energy consumption

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 itself.

Lower energy consumption is the result of reduced operation of the thermal power plants during 2018.

Internal energy consumption per primary sourceE (TJ)*

Fuel type	2016	2017	2018
Coal	213,197	244,764	221,079
Fuel oil	57,379	58,205	53,313
Diesel	32,065	33,357	34,59
Natural Gas	38,237	67,676	51,160
Uranium	274,780	280,139	254,926
Total ENDESA consumption	615,657	684,142	615,336

* TJ: Terajoules.

Energy intensity

The energy intensity 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. This year has also included energy consumption derived from uranium, which was not included in previous years, thereby increasing the amount of energy intensity. The equivalent amount for previous years is included to highlight the downward trend in energy intensity.

	Total energy consumption (TJ*)	Net Production (MWh)	Energy Intensity (TJ/MWh)
2016	615,657	69,566	8.85
2017	684,142	78,222	8.75
2018	615,336	74,193	8.29

* TJ: Terajoules.

Reduction of energy consumption - Energy saving

In 2018, ENDESA saved 171 GJ of energy as a result of the implementation of energy efficiency improvement programmes, including the programmes focused on the conservation and adaption of equipment, basically consisting of switching to led lighting systems. This energy saving represents a reduction of the Company's carbon footprint and contributes to the reduction of the business's operating costs. In 2018, various efficiency measures were also implemented at buildings, but no decrease was observed in energy consumption of the same.

Energy saving due to conservation and improvements in efficiency (GJ)

Fuel type	2016	2017	2018
Redesign of processes	5,389.22	0	0
Conservation and adaptations of equipment	10,322.88	415.78	171.49
Changes in conduct of employees	1,256.81	0	0
Total	16,698.98	415.78	171.49

*GJ: Gigajoules.

External energy consumption

In 2018, external energy consumption was estimated at 65.41 TJ, considering the fuel cost of supplier vehicles that normally work with ENDESA and considering the same perimeter as in previous years. 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.





Catchment of process water (Hm³)

	2016	2017	2018
Thermal Production Unit (TPU)	44,02	50,43	42,90
Nuclear Generation	1,60	1,75	1,71
Mining	0,29	0,02	0,02
Total	46,03	52,21	44,63

5.2.3. Consumption of water

Volume of process water by source

The consumption of process water decreased with respect to 2017 due to lower operation of thermal and nuclear generation technologies. In addition, total consumption remains below the expected target.

The reporting criteria for process water consumption in nuclear plants has been corrected; up until 2017, part of the open cooling circuit, which was for use and not for consumption, was reported as process water consumption.

To comply with the new requirements for water established by the GRI, the following table showing water consumption for the various technologies has been included:

Water consumption (Hm³)

	2018
Thermal Production Unit (TPU)	24,38
Nuclear Generation	32,10
Mining	0,02
Total	56,50

Total water catchment by source

Catchment of water per source shows a decrease compared to 2017 of catchment of industrial water and a slight increase in catchment of cooling water. It should be noted that the water used for cooling is returned to the environment in conditions that guarantee its use in the future and that it represents 99% of the total volume of water catchment.

Total water catchment by source (Hm³)

		2016	2017	2018
Industrial use	Catchment of freshwater	43.49	49.39	41.39
	of surface water	42.33	48.44	40.27
	of wells	0.29	0	0
	of municipal network	0.87	0.95	1.22
	Catchment of seawater			
	Catchment of seawater (desalting)	2.51	2.80	3.12
	Catchment of wastewater (internal use)	0.016	0.015	0.015
Use for Cooling	Marine water (open cycle)	3,083.31	3,265.27	3,290.99
	Surface water (open cycle)	1,607.97	1,502.80	1,753.91
	Water (closed cycle)			
	volume of process water	242.93	285.29	272.38
	draining of cooling towers	221.99	246.27	251.86
Civil use		0.19	1.05	0.20
Total*		4,960.35	5066.74	5,341.46

* The total does not include the volume of process water used for cooling in a closed cycle.

Water sources affected by catchment

Water sources significantly affected by water catchment (no.)

	2016	2017	2018
Significantly affected water masses			
Due to catchment $\geq 5\%$ total annual average vol. of the water mass	124	124	124
Due to catchment in water masses considered to be significant	9	9	9
Due to catchment at Ramsar wetlands or in protected areas	8	8	8
Due to catchment at sources located in areas of national protection	76	76	76
Due to catchment at sources located in areas of international protection	73	73	73
Total significantly affected water masses	290	290	290
Characteristics of significantly affected water masses			
Volume (m ³)	395,324,000	395,324,000	395,324,000
Flow (m ³ /sec)	2,525.70	2,525.70	2,525.70
Classified as protected	76	76	76
Value of its biodiversity 1=YES; 0=NO	76	76	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.

	2016	2017	2018
Recycled water (Hm ³)	0.016	0.056	0.015

5.3. Noise and light contamination

The limit values for noise and lighting contamination are established by the environmental legislation and, in consequence, the applicable limits are reflected in the authorisations of the various installations. The values are ensured to remain within the regulated margins by environmental management systems that are certified by independent third parties.

5.4. Circular economy and waste management

5.4.1. Measures for prevention, recycling, reuse and other forms of waste recovery and disposal

Endesa's circular economy strategy is based on five pillars:

- **Sustainable supply:** using renewable energies or recyclable materials instead of perishable resources, because the minimise consumption of raw materials.
- **Extension of the useful life of products:** that is, extending the useful life of products by repairing, updating and reselling them.
- **Platforms to share:** increasing the use factor of products, sharing their use, access or ownership.
- **Products as service:** this is based on the transition from a possession model to a service model, which increases the value of using products rather than possessing them. This enhances product quality, improves



the use factor, product useful life and their management and disposal.

→ **Recovery of resources at the end of their useful life:** obtaining energy or useful resources from products once they have reached the end of their useful life by partially replacing worn components and returning them to the market or to other secondary markets.

ENDESA steers its circular economy strategy and actions not only by changing its own conduct to align it with the five pillars mentioned above, but also by offering its customers products and services that help them transform their daily lives and improve the circular nature of their businesses.

Endesa's most noteworthy initiative to achieve circularity is its commitment to decarbonise the generation mix by 2050, with the intention of reaching an energy model based on renewable source energy consumption. This not only increases efficiency and reduces emissions and contamination, but also minimises consumption of raw materials by using renewable resources.

Electric mobility is another of the company's commitments, visible in gradual electrification of a vehicle fleet, as well as in two projects that are clear examples of circular economy: the employee mobility plan (an example of offering a product as a service) and e-car sharing, which increases the use of vehicles by sharing them. On the other hand, the electrical recharging infrastructure plan launched by Endesa X, with the installation of more than 8.500 public charging stations within the 2019-2023 period is another example of a service model included in the circular economy strategy, since it allows users to recharge their electrical vehicle without the need for their own recharging station.

Within the electrical distribution activity, the use of the best available technologies to maintain lines is becoming another good practice in circular economy. The use of drones equipped with high resolution cameras in areas that are difficult to access, as well as infrared cameras on helicopters allow for comprehensive checks on installations,

ensuring proper maintenance and an extension in the useful life of assets.

It has been several years since the Generation business has promoted circularity of certain waste generated by its business activities, such as setting priorities for reuse of ash as a sub-product of coal combustion and minimising its disposal at dumps. In 2018, 27.4% of the ash produced was exploited.

Over time, a farm of artificial underwater reefs have been created on the Barcelona coast thanks to the submerged piers and concrete structures of the old Sant Adrià del Besòs thermal power plant. To recover the entirety of the area degraded previously by industrial projects carried out there, an initiative has been put into place to recover it, enhance marine biodiversity and encourage recreational activities.

Furthermore, the General Services Department is responsible for managing the fleet of Endesa's office buildings and uses its Environmental Management, Energy Efficiency and Interior Air Quality System (SIGAEC) to promote prevention, recycling and use of waste, such as using the least contaminating materials to make the most of natural resources and guarantee the proper management and disposal of the waste generated in Endesa buildings.

Within the goal of "Zero Paper Offices", there has been a reduction of 21 tonnes of paper and carton over the last 3 years.

Likewise, segregating paper and carton and plastic containers at the source makes their valuation possible, maintaining a collaboration agreement with "Save the Children" to donate the corresponding amount to the NGO. In 2016 and 2017, the amount obtained by this revaluation was Euros 11.214.03, which was used in the struggle against child poverty.

5.5. Renewable energies

Endesa has a clear commitment to renewable energies and its first measure in this regard was the acquisition of

the remaining capital of ENEL Green Power España, S.L.U. in 2016. (the 60% that was not under its control at the time), to provide itself with a vehicle for growth in renewable energies.

This commitment is consolidated via the decarbonisation road map that ENDESA has established in its 2019-2021 Strategic Plan, which has set a goal to increase installed renewable energy capacity by over 30% by 2021, with an associated investment of Euros 2.000 million.

This firm commitment to growth in renewable energies has seen concrete steps, such as the acquisition of 879 MW of wind and solar technology in tenders in 2017, as well as the purchase in 2018 of 5 operating wind farms with a capacity of 132 MW.

5.6. Protection of biodiversity

5.6.1. Measures taken to preserve or restore biodiversity

The preservation of biodiversity is not a new idea for ENDESA. In its first Environmental Policy, approved and published in 1998, one of the benchmark principles that was established was to "Preserve the natural environment of its facilities by taking measures to protect fauna and flora species and their habitats." Likewise, preservation of biodiversity was already established as one of the seven Commitments to Sustainable Development within the framework of the first Endesa Sustainability Plan. As a result of that commitment, the structure of the Biodiversity Conservation Plan was drawn up in 2012 and began to be put into practice in 2013, attaining a high level of efficiency and considerable success from its inception.

ENDESA's Biodiversity Conservation Plan ushers in an initial structure for the selection and assessment based on scientific, corporate and applied criteria of all initiatives collected internally and externally for the conservation of biodiversity.

The Biodiversity Conservation Plan's objectives for 2018 remain on the same main action lines as those expressed in 2012:

- Adapting the physical environment of the Company's land and facilities and encouraging biodiversity in a manner that is biogeographically coherent.
- 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 it 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.

In 2018, the Biodiversity Conservation Plan completed a total of 25 operational interventions with the following results: 22 were started up in previous years (6 of these were completed in 2018 and 16 are on-going) and 3 more actions started over the last year.

5.6.2. Impacts caused by activities or operations in protected areas

Endesa monitors all significant environmental aspects and ensures in each case that its environmental impact is minimised and compensated. This process is included in the environmental management systems implemented in the Endesa lines of business and in accordance with environmental authorisations and environmental surveillance plans applicable in each case. This is especially true of facilities located inside protected natural spaces.

As a measurement of the impact caused by the mere presence of Endesa facilities in protected natural spaces, Endesa has gathered information on the surface occupied by Company centres and infrastructures within the areas



belonging to the Red Natura 2000 (ZEC, LIC and ZEPA). This information has been obtained with the Biodiversity Indicators System, which has been place in the last two years. The information is presented below. The Biodiversity Indicators System is scheduled to be included in renewable energy facilities in 2019.

THERMAL GENERATION

Surface (km ²) occupied in Red Natura 2000 spaces	1.57
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HYDRAULIC GENERATION

Surface (km ²) occupied in Red Natura 2000 spaces	110.76
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Human resources

1. Material aspects and objectives

1.1. List of material aspects

In 2018, 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 2018 materiality study.

Digital transformation is a critical objective for ENDESA. The company works to achieve an organization that is fu-

lly connected with current digital environment, positioning customer in the centre. This change is an evolution of organizational culture that requires the development of employee's abilities. To support these transformations, Agile methodology is being used both in projects and operational models.

Promotion of human capital: For ENDESA, its employees constitute the main company asset to create value in a sustainable manner. 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 essential to lead such change. Accordingly, ENDESA's employment priorities include management of diversity (especially gender and age), the management of cultural change, the availability of adequate work conditions, employment flexibility and meritocracy.

1.2. How the Organisation manages each material aspect - ENDESA Sustainability Plan (PES)

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 2018-2020 Sustainability Plan (PES), associated with the employment priorities described above, as well as the new objectives established in the framework of ENDESA's new 2019-2021 Sustainability Plan (PES).

The complete details of all the work environment objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com

Fulfilment of the main human capital promotion objectives in ENDESA's 2018-2020 Sustainability Plan (PES)

Area 2018-2020 PES	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Promotion of human capital	Employees included in performance assessment (% employees)	100%	100%	100%
	Global inclusions of women	35%	32.14%	92%
	Women in management positions	17.5%	17.5%	100%
	Promotion of training to employees (hours/employee/year)	36	37.9	100%
	Promotion of on-line training to employees (hours/employee/year)	10.5	6.64	63%
	Promotion of smartworking (no. of employees)	1,200	1,843	100%
	Promotion of services that favour employee reconciliation ¹ (no. of services)	60	68	100%

New human capital promotion objectives for ENDESA's 2019-2021 Sustainability Plan (PES)

Ámbito PES 2019-2021	Principales objetivos	Objetivo 2019	Objetivo 2021
Promoción del capital humano	Empleados cubiertos por la evaluación del desempeño (%empleados)	100%	100%
	Altas globales de mujeres	42%	50%
	Mujeres en posiciones de dirección	18%	19%
	Impulso de la formación a empleados (horas/empleador/año)(presencial y online)	61	63
	Desarrollo de capacidades digitales (% empleados)	100%	100%
	Promoción del smartworking (nº empleados)	1,300	1,500
	Promoción de servicios que favorezcan la conciliación de los empleados (nº servicios)	76	80
	Discapacidad. Disponer de un Punto Focal	1	1

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, the performance assessment and personal development processes guarantee professional advancement on the basis of merit and personal contribution.

Digital transformation means that the Company must adapt its value proposal to the new digital customer and adopt new technologies in its value chain. Therefore, one of the Company's most important challenges is the dissemination of this digital culture among its employees. In this regard, ENDESA is also working to promote the change of the organisational culture and the operating models.

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.

ENDESA rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA encourages and maintains 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 compliance with the values included in the ENDESA 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 implementing specific measures to promote non-discrimination and inclusion in the following areas of diversity, each of which has a defined plan of action:

Gender	Nationality	Disability	Age
<ul style="list-style-type: none"> > Gender equality in internal and external selection processes. > Agreements with technical universities. > Parental programme. 	<ul style="list-style-type: none"> > Tutoring programme for expatriates. 	<ul style="list-style-type: none"> > Identification of an internal reference (local point). 	<ul style="list-style-type: none"> > Tutoring programme for new hires. > Transfer of knowledge between seniors and juniors.
Transversal			
<ul style="list-style-type: none"> > Training courses and/or specific workshops about behaviour and values related to diversity and the inclusion. 			

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.

2.1. Leadership and talent development

ENDESA considers development of individuals as key to their personal and professional advancement and, thereby, to achieving success within the Organisation. This development also takes into account the various businesses and territories, adapting to the needs that may arise at a given moment. These actions are performed both for individuals and for teams.

The activities set in motion in 2018 affected a total of 1.777 persons: courses (Ex.: “Let’s Go” or “Coach Manager”), *Mentoring, Coaching* (Individual or Team), *Team Building*, conflict solution and other development activities.

2.2. Diversity. Policy against all types of discrimination: Eliminating discrimination in employment and jobs, forced labour and child labour

ENDESA explicitly condemns child labour and forced labour through its code of ethics and is committed to strict compliance with international standards, such as the United Nations Global Compact. The aim is to enhance a work environment that respects Human Rights. Condemnation of child labour and forced labour is also explicitly set forth in ENDESA’s Human Rights Policy, approved by its Board of Directors on 24 June 2013. Also worthy of mention is the fact that Endesa operates in a geographical region (Spain and Portugal) with a regulatory framework that guarantees the absence of child and forced labour violations. Endesa uses the most advanced prevention, control and monitoring mechanisms to guarantee compliance with current legislation, international standards

and ILO principles in this matter. This issue has also been reviewed in the due diligence process on Human Rights carried out by Endesa, the details of which can be found in Section 2 of the chapter on Human Rights. As a result, no complaints have arisen regarding this issue throughout 2018.

These conditions also hold true for all the companies that ENDESA has a contracting and supply relationship with. To ensure this, ENDESA includes human rights clauses in its general contracting conditions. Human rights aspects are assessed in the supplier assessment system and social audits are performed to verify compliance. For more information, please refer to the “Supply chain” chapter.

2.3. Digital disconnection policies

Endesa is fully committed to the implementation of digital disconnection from work policies, among which are measures implemented for digital disconnection, given the impact of technology on the Company and its influence on the new methods of flexible work currently in practice. Thus, after the approval of Organic Law 3/2018 of 5 December on “Protection of Personal Data and guarantee of digital rights”, Endesa detected the need to take further steps in prevention and address new measures to reduce or mitigate cases of IT stress or fatigue as set forth in this recent legislation.

Noteworthy among the measures addressed in 2018 are employee training to facilitate the use of information technology tools and monitoring and application of the provisions in the collective standards of the Group, which regulate the use of these tools. In line with these actions and the recent legislation approved concerning digital rights guarantees, a more thorough digital disconnection policy is scheduled for development in 2019.



2.4. Training

ENDESA offers its employees training in order to equip and improve the technical qualifications they need to perform their duties, and to encourage the growth of attitudes and skills for their personal development. This offer is aimed at achieving compliance with the Company's strategic objectives and at promoting its values.

In 2018, ENDESA held 2.802 training sessions, in which 8.395 employees took part. This involved 370.416 hours of training, with an average of 37.9 hours per employee.

3. Key performance indicators

3.1. Employees

3.1.1. Number of employees

Total plantilla		
2016	2017	2018
9,693	9,706	9,763

3.1.2. Distribution of the workforce by gender, age, country and professional category

ENDESA is committed to diversity among its employees and believes that diversity is a fortifying factor for the Company. The figures presented below show the gradual increase of the number of women in the workforce, increasing their percentage in the total number of workers, which is important and shows the Company's firm commitment to gender diversity, in spite of all the difficulties that this poses in the energy sector. This increase in diversity is especially notable, given the size of the workforce, its composition over time and the stable nature of labour relationships.

With regard to age, the data reflect a solid and safe company that combines senior staff with gradual renewal.

Workforce distribution by gender

		Number	%
Women	2016	2,168	22.4
	2017	2,248	23.2
	2018	2,279	23.3
Men	2016	7,526	77.6
	2017	7,458	76.8
	2018	7,484	76.7

Workforce distribution by age

	<30	30-50	>50
2016	299	5,826	5,368
2017	336	5,849	3,521
2018	384	5,776	3,603

Distribution of the workforce by professional category

Distribution of the workforce by gender in Spain and Portugal %

	Executives			Middle management			Administration and Management staff			Manual workers		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Male	83.6%	83.6%	82.5%	69.2%	68.1%	67.5%	71.1%	70.9%	71.2%	96.9%	97.3%	97.2%
Female	16.4%	16.4%	17.5%	30.8%	31.9%	32.5%	28.9%	29.1%	28.8%	3.1%	2.7%	2.8%

3.1.3. Employees with disabilities

ENDESA implements measures for the integration of people with disabilities. The Family Plan, developed by the Adecco Foundation, continued in place in 2018. This plan provides 74 relatives of employees with a disability with personalised counsel and health therapies. With the aim of providing support for employees with disabilities, the Company and the Randstad Foundation have opened a specialised confidential counselling service to provide employees interested in getting a better understanding of the implications and treatment of disabilities with information and advice.

ENDESA implements measures to foster the integration of people with disabilities, the details of which can be found in Section 3.6.4 of this document.

The Company has provided support for the 76 employees with disabilities in its workforce this year.

Contracted persons with disabilities

	2016	2017	2018
	78	80	76

3.1.4. Contracts; impact of the Company's activity on employment: New employees/ Staff turnover

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

	2016	2017	2018
	556	256	393

ENDESA wishes to be an excellent company to work for; therefore its concentrated on low staff turnover as an indicator of the satisfaction of the people working in the

Company. The employee turnover rate in Spain in 2018 was 4.58%, within the values expected by the Company.

3.1.5. Contract distribution

Number of employees	Full Time Contracts	Part Time Contracts
2016	9,688	5
2017	9,702	4
2018	9,762	1

Number of employees	Part time contracts	
	Male	Female
2016	1	4
2017	1	3
2018	1	0

Number of employees	Part time contracts per age group		
	<30	30-50	>50
2016	0	1	4
2017	0	0	4
2018	0	0	1

Number of employees	Part time contracts per professional category			
	Executives	Middle management	Administration and Management	Manual workers
2016	0	0	5	0
2017	0	0	4	0
2018	0	0	1	0

Percentage of Contracts (%)	Open-ended contracts		Fixed-term contracts	
	Male	Female	Male	Female
2016	77.5%	22.5%	82.6%	17.4%
2017	76.8%	23.2%	78.5%	21.4%
2018	76.7%	23.3%	74.9%	25.1%

Number of employees	Open-ended contracts			Fixed-term contracts		
	<30	30-50	>50	<30	30-50	>50
2016	230	5,667	3,561	69	159	7
2017	258	5,689	3,512	78	160	9
2018	270	5,563	3,593	114	213	10





Number of employees	Open-ended contracts				Fixed-term contracts			
	Executives	Middle management	Administration and Management	Manual workers	Executives	Middle management	Administration and Management	Manual workers
2016	292	2,763	3,974	2,428	0	44	105	87
2017	280	3,053	3,821	2,305	0	54	115	78
2018	284	3,131	3,739	2,272	0	77	148	112

3.1.6. Dismissals

In 2018 there were 7 dismissals in ENDESA, four women and two men, 0.07% of the total workforce as the end of the reporting period.

Dismissals in 2018

Age	Gender	Professional category
35	Female	Middle management
46	Male	Administration and office workers
49	Female	Supervisor / Expert
50	Male	Middle management
50	Female	Individualised Management Group
55	Female	Administration staff
59	Male	Distribution staff

3.1.7. Measures adopted to promote employment

ENDESA fills in employment vacancies through internal mobility, but also carries out external contracting due to the degree of profile complexity and the growth of some of its lines of business.

Most new hiring is taking place in areas associated with the new energy model, in line with ENDESA's strategic commitment. To this end, it is hiring profiles that will develop renewable energies, electric mobility and technological profiles to face the digital transformation underway in the Company. Technical and sales profiles, as well as business developers are also very necessary for commercial expansion and the growth of new businesses, such as Endesa X.

Endesa promotes employment, especially among youth, through intern and grant programmes that are a source of recruitment of talent; it focuses especially on the employment of women as established in its gender diversity policy.

3.2. Remuneration of directors, managers and employees

3.2.1. Remuneration of Directors

See section 1.4. The remuneration of directors can be found in the Corporate Governance chapter in this document.

3.2.2. Remuneration of managers and employees

Average fixed remuneration of men in euros, in accordance with their professional category

Spain and Portugal		
Executives	2016	152,507
	2017	143,391
	2018	141,899
Middle management	2016	72,786
	2017	71,085
	2018	68,924
Administration and office workers	2016	57,811
	2017	57,981
	2018	56,697
Manual workers	2016	52,575
	2017	50,931
	2018	50,974
Average	2016	62,912
	2017	62,240
	2018	61,101

Average fixed remuneration of women in euros, in accordance with their professional category

Spain and Portugal			
Executives	2016	123,942	
	2017	119,226	
	2018	119,364	
Middle management	2016	65,048	
	2017	63,813	
	2018	61,802	
Administration and office workers	2016	49,378	
	2017	49,996	
	2018	48,638	
Manual workers	2016	45,698	
	2017	48,143	
	2018	48,551	
Average	2016	56,688	
	2017	57,374	
	2018	56,214	

Average fixed remuneration (% of women's salary minus fixed remuneration of men))

Spain and Portugal			
Executives	2016	18.7	
	2017	16.9	
	2018	15.9	
Middle management	2016	10.6	
	2017	10.2	
	2018	10.3	
Administration and office workers	2016	14.6	
	2017	13.8	
	2018	14.2	
Manual workers	2016	13.1	
	2017	5.5	
	2018	4.8	
Average	2016	9.9	
	2017	7.8	
	2018	8.0	

In 2018, taking into consideration fixed salaries, variable salaries and the social benefits, the ratio between salaries for women and men would be as follows:

	Male	Female	Salary gap ¹ Women vs. Men
Executives	193,017	156,028	19.2
Middle management	77,805	67,474	13.3
Administrative staff	61,970	50,958	17.8
Manual workers	57,695	54,562	5.4
Average	69,300	60,937	12.1

¹ This is the percentage by which women earn less than men, considering fixed salaries, variable salaries and social benefits, in compliance with Law 11/2018, dated 28 December.

To understand the inequality between salaries for women and men in Endesa, the following factors should be taken into consideration: The industrial nature of the Company, low staff turnover, which impedes drastic variations in staff composition, and the distribution of genders in the Company over time, due to historical cultural and socio-demographic factors (lower number of women with access to university studies in the past, less presence of females in technical degrees, etc.), which results in a longer average tenure of men versus women. Other historical factors should also be mentioned, such as the conditions of original collective agreements.

Relationship between initial remuneration and minimum remuneration

	2017		2018	
	Female	Male	Female	Male
Initial remuneration	23,680.92	23,680.92	23,680.92	23,680.92
Minimum remuneration in Spain	9,906.40	9,906.40	10,302.6	10,302.6
Relationship between initial remuneration and minimum remuneration	2.39	2.39	2.30	2.30

3.3. Organisation of work

3.3.1. Organisation of working time

The annual workday is established by the terms set forth in Endesa regulations.

The Company's Management and Corporate Representatives agree on the need to reduce overtime to an indispensable minimum by establishing work organisations tools and systems that permanently improve the Organisation's efficiency and in compliance at all times with current legislation and especially with the provisions of RD 1561/1995, dated 21 September. In the event that overtime becomes necessary, Endesa contemplates the possibility of employees choosing between economic compensation or mixed compensation mechanisms (economic compensation and rest time).





In addition, in 2018 the human rights *due diligence* action plan included a specific communication to human resources managers to emphasise ENDESA's commitment with the reduction of overtime to the indispensable minimum. For more information, please refer to Section 3 of the Human Rights chapter.

3.3.2. Number of absentee hours

Rate absenteeism of ENDESA¹ (T.A.²)

	2016	2017	2018
Spain	2.59	2.60	2.69

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.

3.3.3. Measures intended to facilitate work-life balance

In 2018, 2.742 employees (1.492 men and 1.250 women) benefited from the initiatives to promote work-life balance in ENDESA (including Work Outside the Office).

To increase the commitment and satisfaction of the individuals working in the Company, ENDESA has continued to develop actions that actively enhance and promote its corporate values of responsibility, trust, proactivity and innovation. ENDESA has continued to encourage initiatives that favour flexible work and enable its employees to strike a balance between personal, family and professional life.

The measures taken by the Company to enable a fair work-life balance are divided into five large groups: job quality (open-ended contracts, pension plans, health and well-being, support for expats, etc.), work time and workspace flexibility (reduced working days, leaves, paid work leaves, etc.), family support (leaves, work leaves and work schedule flexibility to care for relatives, aid to dependent el-

derly persons, etc.), professional development (professional / technical / skill /language training, volunteer programmes, coaching, etc.) and equal opportunities (professional assistance for victims of gender violence, medical advice, etc.).

It should be mentioned that the "Work Outside the Office" modality has continued to be very successful throughout 2018. This initiative, aligned with promoting a work-life balance, also helps to build trust between the manager and employee and to value factors, such as flexibility, autonomy and responsibility for results. In all, 1.757 employees (861 women and 896 men) took part in this initiative in 2018.

Besides these measures, which are available for all the people at ENDESA, a series of services are available at the various work centres. Thus, during 2018, the "To Do room" was inaugurated in the Madrid headquarters. Open all hours, with online payment, it offers a host of services for employees in a single space. Specifically: clothing and footwear repairs, dry cleaning, laundry, financial advice, repair of mobile phones, tablets and computers. There is also an app that allows people to share the private vehicle on their way to and from the office, e-sharing car service with a fleet of electric vehicles for professional use, cleaning and car repairs, yoga classes, pilates and maintenance gymnastics, nutritionist and travel agency.

In the Barcelona, Madrid and Seville offices, in order to favour women who have been mothers, the breastfeeding room service has continued to be offered. Thus, women working in these offices can use these facilities as a private, reserved area to extract breast milk after returning from their maternity leave.

3.4. Social relationships

3.4.1. Company management of the right of workers to be informed and consulted

ENDESA 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.

ENDESA complies with existing regulations and informs the Employees' Representatives of any changes in the organisation and the Company at least 30 days in advance.

Just as it does periodically, the Company launched a survey on the work environment at the end of 2018. The Company uses this survey to identify areas for improvement on which to work to correct anything required.

Lastly, mention should be made of the regular meetings between the Chief Executive Officer and employees. This initiative is held every two months and attendees have the opportunity to report their concerns and suggestions directly to the CEO. Since the first occasion of this meeting in 2015, 230 persons have participated, of which 87 attended in 2018.

ENDESA uses the corporate intranet to provide continuous updated information on its projects to its employees, as well as all Company policies. Information is also published regularly, two days a week in bulletins, as well as an audiovisual summary of current events in the Company once a week. 100% of employees have access to these channels.

3.4.2. 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 a permanent dialogue with worker representatives, through which it seeks to establish and maintain collaboration that benefits both the Company and its employees.

There are various Company bodies that are available 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.

In 2018 ENDESA launched a mobility survey for its employees, within the framework of the Company's Sustainable Mobility Plan. Likewise, a series of activities were conducted during the Diversity Days in November to generate awareness of ENDESA's Diversity and Inclusion Policy, which covers four main areas (nationality, gender, age and disability), as well as to encourage the integration of all groups.

The Human Resources area has a Human Resources People Business Partner, whose mission it is to provide close support, advice and counsel to employees.

3.4.3. 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. Thus, regulations esta-



blish that these operations shall be made known to the Employees' Representatives at least 30 days before they come into effect.

3.4.4. 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, suppliers 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.

3.4.5. Percentage of employees covered by collective agreements

In ENDESA there were four collective labour agreements in operation at the end of 2018 affecting 8.915 employees, 91.69% of the workforce. As regards ENDESA's independent contractors, 99.7% were covered by a collective labour agreement.

At ENDESA in Spain, on 27 December 2018, Endesa's Fifth Collective Agreement was dissolved and closed. Hence, there has been no collective labour framework since 1 January 2019, and the conditions of all its employees have been contracted individually.

However, on 6 February 2019, all the parties involved agreed to reopen the negotiation process, as the Company expected to make real progress in reaching an agreement that adapts labour regulations to the new requirements of the work environment.

ENDESA Employees

Spain	Employees	%	Portugal	Employees	%
Staff included in collective agreements	8,915	91.69	Staff included in collective agreements	4	10
Staff not included in collective agreements	808	8.31	Staff not included in collective agreements	36	90
Total Spain	9,723	100	Total Portugal	40	100

3.5. Training

3.5.1. Hours of training, broken down by gender and professional category

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. 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	29.9
Male	28.8
Female	35.4
2017	36.9
Male	36.2
Female	40.7
2018	35.0
Male	34.1
Female	39.2

Middle management training

2016	52.9
Male	52.8
Female	53.2
2017	43.8
Male	43.3
Female	44.9
2018	37.6
Male	37.2
Female	38.4

Administration and management personnel training

2016	42.3
Male	44.7
Female	36.4
2017	31
Male	32.8
Female	26.6
2018	35.4
Male	37.9
Female	29.2

Manual worker training

2016	45.4
Male	45.7
Female	36.1
2017	31.2
Male	31.4
Female	22.3
2018	42.9
Male	43.3
Female	28.3

3.5.2. Employee training on Human Rights policies and procedures

An online Human Rights course intended for the entire workforce was conducted on the 70th anniversary of the Universal Declaration of Human Rights. The aim was to in-

crease workforce knowledge of such a crucial issue and to inform about Endesa initiatives to promote the respect for human rights.

A new section has been launched on the intranet, exclusively dedicated to human rights. The purpose is to promote the underlying social, civil and cultural values associated with respect and individual dignity and the community.

Training in Human Rights

Employee training on Human Rights policies and procedures associated with their activities	(hours)	2016	200
		2017	1,200
		2018	335
Employees who received training in human rights	(n.)	2016	1
		2017	6
		2018	1,014
Total number of employees	(n.)	2016	9,694
		2017	9,706
		2018	9,763
Employees who received training in human rights	(%)	2016	0
		2017	0.06%
		2018	10.39%

3.6. Equality

3.6.1. Explanation of the concepts of diversity and non-discrimination

The Diversity and Inclusion programmes fall within the framework of the Human Rights Policy approved by the Board of Directors of ENDESA, S.A. on 24 June 2013. Among the principles included in this policy are respect for diversity and non-discrimination. ENDESA rejects any form of discrimination and maintains its commitment to ensure that all its workers, both current and potential, are treated with respect toward their diversity and to promote equality of opportunities, both at the initiation of the labour relationship and at any stage in its 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.

All forms of discrimination: political, religious, national, ethical, racial, linguistic, gender or age-related are forbidden. ENDESA also rejects any form of personal discrimination for reasons of: beliefs, sexual orientation, syndicated affiliation 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 to be sought after and promoted. Equal treatment and opportunities will be guaranteed for all forms of diversity.

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 inclusion services, with no restrictions of access to any of the parties involved, whether employees, customers or contractors.

All these persons 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, sexual 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.

3.6.2. Explanation of how the Organisation manages diversity and non-discrimination

Within the policy of Diversity and Inclusion of the ENEL Group and the Company's Human Rights Policy, ENDESA rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities.

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, ENDESA has defined a gender action plan with two main goals in mind: to increase the presence of women in the Company and in positions of responsibility.

In 2018, the actions envisaged in the agreement signed with the Ministry of Health, Social Services and Equality were implemented in the areas of selection, promotion and work/life balance and the Equality Award granted by said Ministry was maintained.

These goals have been put into practice with the following lines of action:

- 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.
- To promote participation and inclusion of female students, especially in technical studies or so-called *STEM* studies, Human Resources has established programmes and collaboration events with schools and high schools.
- ENDESA has developed a variety of initiatives to foster technological vocations:
- The *Girls in ICT* seminar was held in its head office in Madrid, in the month of May. Participating in the event

were 55 girls between 14 and 16 years old and the aim was to show them the various tasks that can be performed in the digital field and the career options of the various technical fields of study.

- ENDESA collaborates in the development of the Ori-enta-T educational programme along with the *Junior Achievement* Foundation and other companies. This initiative is intended for third year Secondary Education students (14 to 16 years old) and teachers and aims to focus on professional career guidance through a series of events that combine lectures with inspiring personal and professional stories, company volunteers and classroom workshops. The objective of this programme is to show youngsters the opportunities for employment in *STEM* careers and promote female leadership in this area.

A variety of programmes have been launched to enhance the development and inclusion of women in positions of responsibility in the Company:

- The *Women Mentoring* programme was completed in 2018. This initiative was addressed to female managers in ENDESA with the aim of enhancing their development and inclusion in high positions of responsibility in the Company. The main feature of this *mentoring* programme is that the mentors are members of the Organisation's senior management, which serves to establish an internal network of mentors and pave the way for internal mobility through the enhancement of cross-cutting knowledge of the Company.
- The *Take the Lead* development programme aimed at women in pre-management positions or with potential to occupy positions of responsibility.
- The Days of Diversity event, held in November in the Company's head offices in Madrid included a day dedicated to unintended biases, with the aim of generating more equal and diverse working environments.

ENDESA conducts parental programmes aimed at balancing the needs that employees have as parents and professionals. These consist in a series of structured interviews between employees, their managers and *Business Part-*

ners from Human Resources, before and after maternity, to increase their value, both for the employee and for the Company.

Age: ENDESA's aim is to acknowledge, respect and manage the differences between generations, guaranteeing the integration, motivation and transfer of knowledge. The following initiatives have been put into practice to this end:

- A tutorial programme 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 *expertise* and *know-how* of senior employees acting as internal trainers is used for employee development.
- ENDESA is a member of the Generation and Talent Observatory, sponsored by the 50Plus Association, which focuses primarily on promoting the management of generational diversity among organisations and obtaining indicators that lead to conclusions. The intention is to demonstrate the relationships between cause and effect of policies involving age and talent.
- Thus, on the Days of Diversity and Inclusion event held at the ENDESA offices in Zaragoza, the Generation and Talent Observatory conducted a seminar to value the contribution of each generation (*Babyboomer*, X, Y, Z), promote work in teams consisting of more than one generation and encourage more inclusive working environments.

Nationality: Another goal of ENDESA's Diversity and Inclusion Policy is to increase the acknowledgment, respect and integration of persons of different nationalities working in the Company. To this end, expats were assigned a tutor from the country of destination to assist and support them during the period they were abroad.

Disability: ENDESA has found a singular individual to manage all aspects associated with disabilities. This person provides 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 dealing with Diversity and Inclusion behaviours and values have been programmed. The Days of Diversity and Inclusion were held in November. A total of 10 activities took place in the offices of Madrid, Barcelona, Zaragoza and Seville. These were both awareness-raising and participatory activities, framed within the dimensions of the Diversity and Inclusion Policy of the Enel Group (gender, age, disability and nationality).

3.6.3. Protocols for the prevention of sexual harassment

ENDESA has drawn up an action protocol to prevent sexual harassment which is automatically activated in the event of a complaint against sexual or workplace harassment.

3.6.4. Universal integration and accessibility of persons with disabilities

Throughout 2018, collaboration with the Adecco, Randstad, Prevent, Universia and Integra Foundations has continued to enhance the integration of persons with disabilities. Several initiatives associated with disabilities have been conducted in collaboration with these organisations, such as:

→ Volunteer training activities intended for persons at risk of social exclusion, which includes persons with disabilities, victims of gender violence and long-term unemployed. In collaboration with the Integra Foundation.

→ The Company has collaborated with the Prevent Foundation one more year by supporting the grant programme for University and Advanced Degree Training for students with disabilities with the aim of enhancing equal opportunities in higher education and contributing to train qualified professionals for labour integration.

→ Along with the Universia Foundation, Endesa is a member of the Grant Awarding Committee for students with disabilities. These grants are funded in part by ENDESA donations.

→ On occasion of the Days of Diversity and Inclusion, and in collaboration with the Adecco Foundation, Enel held an awareness seminar, hosted by Pablo Pineda: the first European graduate with Down Syndrome. An inclusive cooking workshop was also held to promote labour and social integration of these persons.

→ The *Human Resources People Business Partner* from ENDESA's Human Resources Department provides support, advice and counsel to employees on all matters concerning disability to enhance their familiarity with this issue. Training courses for Human Resources staff were conducted in 2018 to reinforce this effort and expand their knowledge about disabilities.

ENDESA has continued to take alternative measures along these lines by indirectly contracting the purchase of goods and service from special employment agencies. In 2018, these purchases totalled Euros 2.298.398.86.

3.6.5. Cases of discrimination and corrective measures taken

In 2018, there were no cases of discrimination at ENDESA, a fact which the Company periodically reports to its employee representatives.

Occupational health and safety

1. Material aspects and objectives

1.1. List of material aspects

In 2018, 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 2018 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. How the Organisation manages each material aspect. Results of the ENDESA 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 2018-2020 Sustainability Plan (PES), associated with the employment priorities described above, as well as the new objectives established in the framework of ENDESA's new 2019-2021 Sustainability Plan (PES).

The complete details of all the occupational health and safety objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com



Fulfilment of the main occupational health and safety objectives in ENDESA's 2018-2020 Sustainability Plan (PES)

Area	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Occupational health and safety	Fatal accidents	0	0	100%
	Combined accident frequency rate	1.04	0.72	100%
	Safety inspections in Company and contractor facilities	68,971	84,020	100%
	Extra Checking On Site (ECoS)	12	34	100%
	Fatal accidents	5,030	6,728	100%

New occupational health and safety objectives for ENDESA's 2019-2021 Sustainability Plan (PES)

Area	Main objectives	2019 objective	2021 objective
Occupational health and safety	Fatal accidents	0	0
	Combined accident frequency rate	0.80	0.76
	Safety inspections in Company and contractor facilities	70,000	70,000
	Extra Checking On Site (ECoS)	24	24
	Medical examinations	6,500	6,243

2. Occupational health and safety policy

ENDESA 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 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.

In its long-term strategy, ENDESA carries out various annual initiatives of continuous improvement of Health, Safety and Well-being. It is noteworthy to mention that these were again focused on the basic foundations of the Company's preventive activities, resulting from the proper integration of all agents involved and specific organisational units that make up our safety system. Although not a complete list of the initiatives carried out, these include the following: observation and control of the activity to identify and manage all risks appropriately (paying special attention to psycho-social factors), detection of areas for improve-

ment in our activity or equipment / installations, analysis of any and all incidents, even when personal injuries were not involved, development, innovation and application of improvements in equipment, technologies and work procedures, continuing to work on related matters with our collaborating companies and evidently investing in the training, participation and querying of workers, as well as in awareness campaigns and workshops.

3. Key performance indicators

3.1. Occupational accidents, their frequency and severity, and occupational diseases per gender

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			Severity rates ³		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Spain	50.27	37.42	39.27	1.01	0.75	0.72	0.08	0.09	0.06
In-house	4.85	4.85	5.85	0.30	0.30	0.37	0.02	0.01	0.03
Contractors	45.42	32.56	33.42	1.36	0.97	0.87	0.10	0.14	0.07

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.

	No. of occupational accidents ¹					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	48.27	2	35.45	2	36.27	3
In-house	3.85	1	4.85	0	4.85	1
Contractors	44.42	1	30.60	2	31.42	2

¹ Includes fatal accidents.

	Frequency index ¹					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	1.26	0.18	0.94	0.17	0.87	0.24
In-house	0.31	0.27	0.40	0.00	0.40	0.27
Contractors	1.72	0.13	1.19	0.25	1.06	0.22

¹ Total number of accidents, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1.000.000.

	Severity rates ¹					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	0.06	0.01	0.12	0.01	0.07	0.01
In-house	0.03	0.01	0.01	0.00	0.03	0.01
Contractors	0.13	0.00	0.17	0.02	0.09	0.01

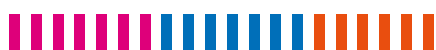
¹ Total number of days missed due to accident, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1.000.

Days lost by ENDESA employees due to absence during the year

	2016	2017	2018
Spain	79,936	56,494	50,485

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.





	Fatal accidents			Serious accidents			Non-serious accidents		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Spain	1	1	0	3	2	2	46.27	34.42	37.27
In-house	0	1	0	0	0	0	4.85	3.85	5.85
Contractors	1	0	0	3	2	2	41.42	30.56	31.42

	No. of fatal accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	1	0	1	0	0	0
In-house	0	0	1	0	0	0
Contractors	1	0	0	0	0	0

	No. of serious accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	3	0	2	0	2	0
In-house	0	0	0	0	0	0
Contractors	3	0	2	0	2	0

	No. of non-serious accidents					
	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
Spain	44.27	2	31.42	3	34.27	3
In-house	3.85	1	3.85	0	4.85	1
Contractors	40.42	1	27.56	3	29.42	2

Customers

1. Material aspects and objectives

1.1. List of material aspects

ENDESA is aware of the need to make advances in products and services adapted to the needs of each custo-

mer. This is why it is working on developing customer digital experience with new value proposals, new ways and channels of customer relationships and new business models.

Consumer access to new technologies and their use in mass has transformed the customer. This has resulted in new consumer habits and customs in their personal and professional lives and evidently in their relationships with

companies. Most consumers are or will be digitally and socially connected customers.

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 a digital culture that will foment the skills necessary to lead this transformation successfully.

1.2. How the Organisation manages each material aspect. ENDESA's Sustainability Plan (PES)

ENDESA includes these priorities in its sustainability plans and sets quantitative goals focused on the customer, 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 the ENDESA 2018-2020 Sustainability Plan (PES), associated with the customer priorities, as well as the new objectives established in the framework of the new ENDESA 2019-2021 Sustainability Plan (PES).

The complete details of all the customer-related objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com

Fulfilment of the main customer-related objectives in ENDESA's 2018-2020 Sustainability Plan (PES)

Area	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Customer focus	Investment in customer digitalisation (millions of euros)	31	28	90%
	Number of digital contracts (millions of euros)	4.0	4.2	100%
	Number of e-billing contracts (millions of euros)	2.8	2.8	100%
	Number of GNV service stations open to the public associated with fuel changes (cumulative)	14	12	86%
	Efficient and sustainable products to solve daily needs through the online store	1,452	1,076	74%

New occupational health and safety objectives for ENDESA's 2019-2021 Sustainability Plan (PES)

Area	Description of the objective	2019 objective	2021 objective
Customer focus	Number of digital contracts (millions of euros)	4.0	4.4
	Number of e-billing contracts (millions of euros)	3.5	3.9
	Number of GNV service stations open to the public associated with fuel changes (cumulative)	18	22
	Efficient and sustainable products to solve daily needs through the online store	1,400	1,673



2. Complaint and complaint-solving system

In ENDESA, complaints are centrally managed by the Complaint Service Unit (UAR) by the persons who work in the six Territorial Units (UTR). Their primary tasks consist in:

- Ensuring customer satisfaction with the management of their complaints
- Detecting the underlying causes of disturbance to normal commercial activity
- Defining the measures needed to correct these and improvements in the management systems
- Resolving complaints in the shortest time possible
- Seeking cost-efficiency when resolving complaints
- Acting as spokespersons with public or private consumer protection agencies
- Intervening in social networks in the event of joint complaints submitted in these

Throughout 2018, the Company has worked on the development of complaint digitalisation to achieve the shortest possible average resolution times for customers and the highest management cost-efficiency.

The main digitalisation project was the Complaint Classifier, which analyses customer comments when a complaint is opened, classifies the complaint according to category and sends the corresponding team to resolve it.

The volume of complaints in 2018 was 436.578, an increase of 6% over the previous year. However, the volume of requests was 459.562, 19.5% less than in 2017.

The overall number of requests and complaints reached a total of 903.278, of which 101.77% of complaints and 99.88% of requests were resolved. Thus, more complaints than those received were resolved, since some were pending, and 0.12% of requests remain pending resolution.

Despite launching the Complaints Classifier, the period for resolution of incidents and changes in systems in 2018 increased to an average of 11 days, compared to 8.5 in 2017.

As regards processes, the implementation of the Social Bonus has increased the number of interventions on billing and rate changes of customers who updated their supply address to request the Social Bonus. Also worthy of mention is the reduction in customer requests for payment agreements and power cuts due to the improvement of the economic scenario in 2018. It should be noted that part of the complaint services are carried out through ATC channels that intervene directly with the customer to resolve the complaint and that when this initial intervention is not successful, the complaint passes to resolution teams, including sales cycle teams that also provide complaint services.

3. Consumer health and safety protection measures

ENDESA complies with current legislation on the safety of persons, both as regards its workers and the population in general, in all its facilities:

- High and medium voltage installations are inspected every three years for safety and suitability.
- Facilities connected to HV/HV and HV/MV distribution substations are equipped with protection to isolate any malfunction that may occur.

- MV lines are equipped with intermediate protective measures, such as lightning rods and automatic valves to prevent overvoltage caused by atmospheric discharges.
- MV/LV transformation centres and LV lines have similar safety equipment.
- As regards mains supply connections, the link-up installations are equipped with their corresponding protective devices, in fulfilment of current regulatory requirements.

As regards health of the population, ENDESA shares the concern of other electricity sector operators and society in

general about the potential effects of the magnetic fields generated by its installations. In this regard, a range of technical verifications are carried out and modifications are made if necessary to ensure that operations do not generate health incidents in the population.

At ENDESA, all the products and services delivered to its customers fulfil current regulations, including those that refer to health. Furthermore, ENDESA stays continuously updated with the latest studies in this matter and actively participates in electricity sector forums to contribute its knowledge and initiatives (technical, constructive, operational, etc.) in the prevention of health risks associated with these causes.

Responsible relationship with the communities

1. Material aspects and objectives

1.1. List of 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 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, minimise risks and make the most of business opportunities, 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 2018 with its most significant stakeholders revealed the following primary aspects associated with management of the local communities: facilitate access to electricity of vulnerable groups, promote economic and social development of communities by focusing on employment as the main resource for empowerment and provide support for local communities at both the social and environmental levels.

1.2. Explanation of how the Organisation manages each material aspect. ENDESA's 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 2018-2020 Sustainability Plan (PES), associated with the social priorities described above, as well as the new objectives established in the framework of ENDESA's new 2019-2021 Sustainability Plan (PES).

The complete details of all the employment objectives included in the Sustainability Plans can be found in the 2018 Sustainability Report, at www.endesa.com

Fulfilment of the main social objectives in ENDESA's 2018-2020 Sustainability Plan (PES)

Area	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Local communities	Access to energy (no. of beneficiaries)	240,000	403,390	100%
	Socio-economic development (no. beneficiaries)	42,000	185,448	100%
	Education (no. beneficiaries)	32,000	52,526	100%

Nota: consideran las actividades de ENDESA y su Fundación, concretamente:

Acceso a la energía: Incluye proyectos de minimización de barreras económicas de acceso a la energía, promoción de la formación técnica y capacitación en el ámbito de la energía, fomento de la eficiencia energética, concienciación en el uso de la energía y desarrollo tecnológico y de infraestructuras para facilitar el acceso, y el acceso a la electricidad a colectivos vulnerables.

Desarrollo socioeconómico: Incluye proyectos de fomento del empleo y generación de actividad económica en la comunidad, transferencia de conocimientos y capacitación, apoyo a actividades empresariales locales.

Educación: Incluye proyectos de apoyo a actividades formativas que involucren a estudiantes, familias, colegios y universidades y de fomento de la formación académica, en general, no relacionada con la energía, a través de becas, cátedras, etc.

New social objectives of ENDESA's 2019-2021 Sustainability Plan (PES)

Area 2019-2021 PES	Main Objectives	2020 objectives
Local communities	Access to energy	1.820.000 beneficiaries until 20201
	Socio-economic development	640.000 beneficiaries until 20201
	Education	225.000 beneficiaries until 20201
	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 shown refer to the 2015-2020 period (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 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 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. Operations with participation in the local community, impact assessments and development programmes

3.1. Shared value creation model

Since 2016, ENDESA has been immersed in the process to implement its Shared Value Creation Approach as a tool to integrate sustainability in its business strategy and operations. The model is currently implemented at various stages in 100% of the facilities in the Operation and Maintenance phase of both thermal and renewable energy generation, as well as in all the new construction projects of wind and solar farms that cover the power supply awarded in the last two tenders held in 2017.

At the close of 2018 and from greater to lesser degree of implementation, there are 11 generation facilities in the execution stage of the CSV Plan, 13 facilities in the design stage of the Plan in conjunction with local stakeholders and 9 facilities in the stage of contrasting analyses with local stakeholders. The rest of the facilities (232) have undergone application of the basic tools of local environment analysis, identification of the key priorities, risks, impacts and stakeholders related with the business asset/project.

As a result of these activities, there were 105 meetings with Town Councils, public agencies, social agents, etc. in 2018 to integrate, contrast and mark priorities for local needs and generate channels for dialogue and participation in shared value creation. Two early communication workshops were also conducted to inform on CSV methodology, its application and main objectives. Other information meetings were also held with local stakeholders on specific subjects (energy efficiency, new social bonus, etc.).



3.2. Future Plans in Compostilla and Teruel

Endesa maintains its firm commitment to decarbonisation of society, which lead to its public commitment in 2016 to Sustainable Development Goal 13, which entails 100% decarbonisation of its energy mix by 2050 and a road map with clear goals for 2020, 2030 and 2040, as explained throughout this document. This commitment is found in both its 2019-2021 Strategic Plan and its 2019-2021 Sustainability Plan, which include an increase in production from renewable energy sources, an increase in production of CO₂-free energy, a reduction in absolute and specific CO₂ emissions and goals to reduce installed thermal generation (See the chapter on Endesa Group Organisation, Section 1.8 and the chapter on Environmental Sustainability).

This commitment to reduce thermal generation is specifically included in the 2019-2021 Strategic Plan announcement of the closure of the Compostilla and Teruel plants in 2020. On 19 December, ENDESA formally requested the closure of both plants.

In line with its commitment to local communities and responsible management of the closure of the Compostilla and Teruel plants, ENDESA voluntarily submitted Plans for the Future along with the requests for closure to promote development of economic activities and job creation in the areas where the two plants are located, and remains open to the flexible inclusion of new feasible initiatives that may be proposed in the future to achieve these goals.

Within the framework established in the Plans for the Future, ENDESA will respect the jobs of all the employees of the two plants and attempt to minimise their geographical mobility. The Company will attempt to prioritise contracts for auxiliary companies to take on the tasks of closing and dismantling both plants, as well as to develop the new renewable facilities that it proposes to install in the corresponding areas. The closure and dismantling work will run over a long period of time, currently estimated at between 4 and 6 years and will generate around 130 jobs, with occasional peaks of 200, in each location.

The Company's Plans for the Future also include large investments in new renewable energy projects. Specifically, Endesa intends to develop up to 1.000 MW of new photovoltaic solar capacity in the Andorra plant area, which will require an investment of Euros 800 million and must be added to the 513 MW from wind farms intended for Aragon at an investment of Euros 500 million.

As regards the Compostilla plant, the Company is studying photovoltaic projects with a capacity of 300 MW in the Villameca area, in addition to 20 MW of wind power to cover the power awarded to the Company in the last two tenders. In all, this represents an investment of Euros 260 million in the area.

Furthermore, the facilities included in the Plans for the Future will provide the corresponding towns with significant resources by way of taxes and fees, as well as high amounts of revenue from rent paid to the owners of the land where these projects will be developed.

Within this Plan, the Company also intends to promote a programme so companies, institutions and other public and private agencies can present feasible alternatives through a participatory, transparent and open process to search for investment and job generation projects at the location of both plants or their immediate surroundings. This programme, which will be developed with utmost involvement of regional and local agents will allow any interested party to present a reconversion project. These projects will be assessed by an independent committee that will also include significant representation of regional and local agents.

4. Key performance indicators

4.1. 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 14 million euros. The end result of ENDESA's social contribution in 2018 rose 1.4% on the previous year.

Moreover, in 2018 there were 1.148.888 direct beneficiaries of projects, a 20% increase over the number of people who benefitted the previous year, which was 958.335.

Likewise, it must be emphasised that investment in socio-economic development projects of the communities rose from 25%, with respect to the prior years' total, to 35% in 2018.

Project categories were changed this year to increase the relevance of "Education" (previously included as a subcategory of "Support for local communities" projects) since this is one of the commitments stated publicly and in line with the United Nations Sustainable Development Goals (SDG 4 - Quality education)

Main figures	2016	2017	2018
Social Investment according to LBG (millions of euros)	12.3	13.8	14.0*
Access to energy projects	32%	34%	25%
Projects for socio-economic development of communities	9%	25%	35%
Education projects	Included in the "Support for local communities" section		10%
Support for local communities projects	58%	41%	30%

4.2. Access to energy projects

One of the main pillars of ENDESA activities in the social arena is to develop projects aligned with the Company's core business, through initiatives that facilitate access to energy. There have been more than 404.000 beneficiaries of these kinds of projects developed by ENDESA this year, similar to the figure for the previous year. This constitutes an example of ENDESA's commitment to the development of society, providing a basic asset for the well-being of people, such as access to electricity. This category includes initiatives to minimise economic barriers for vulnerable population groups, fomenting skills and employment capacities in the sector, promoting energy efficiency and use awareness, etc.



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.

Beneficiaries of access to energy (no.)

2016	240,249
2017	401,141
2018	403,390

4.3. Projects for socio-economic development and job creation

ENDESA is committed to the socio-economic development of the communities where it is present, enabling initiatives that drive progress through support for, generation and creation of the local economic fabric. Thus, ENDESA contributes to Sustainable Development Goal 8.

This is the framework for projects not related to energy, which enable employment development, infrastructure development, the transfer of skills and training and support for local business activities.

In 2018, the Company invested nearly Euros 4.8 million in these types of initiatives (37% more than the previous year) representing 41% of economic investment or investment in kind (35% according to LBG), managing 36 projects that have benefitted more than 185.000 people.

Likewise, among other activities in the "Access to energy" category, the Company fostered employability and job creation in the sector. Within these lines of action is a subcategory called "Training and learning in the energy environment," which includes courses, internships and the generation of professional opportunities in the sector for the unemployed. In 2018, the Company invested more than Euros 600.000 in 8 projects of this kind that benefitted 764 persons, of whom an average of 35% are estimated to be able to find work.

4.4. Education projects

ENDESA is committed to promoting access to inclusive and quality education, in line with United Nations Sustainable Development Goal number four, adhered to by both the parent company, Enel Group and the Company.

In 2018, and according to LBG methodology, the Company invested more than Euros 1.4 million in these types of initiatives, representing 10% of social investment, and managed 20 projects that have benefitted more than 152.000 people.

4.5. Support for local communities projects

ENDESA provides support for local communities through various types of projects intended to improve the well-being of the people and their communities, maintain their cultural identity, preserve their heritage, improve local environment and biodiversity, sport, promote healthy habits and support the satisfaction of basic needs.

ENDESA carries out these activities based on knowledge and awareness of each local reality and collaborates with the most prominent social organisations of the area where it operates, with the support of the territorial units. These lines of action have received an investment of 35% of the budget (30% according to LBG), which corresponds to nearly Euros 4 million, 72 projects and over 500.000 beneficiaries.

5. Project impact measurement

The benefits obtained by institutions that collaborate with ENDESA are estimated to be an improvement in their services or increase in their capabilities in 94% of the cases,

expansion in the scope of their activities in 57% of cases and an increase in recognition in 47 of cases. These three results have occurred simultaneously in 33% of the institutions.

Insofar as the number of beneficiaries is concerned, in 2018 an estimated total of 1.148.888 people have benefited directly from the 163 social development projects carried out by ENDESA, a 20% increase over the previous year (958.335 in 2017). Of these, 35% correspond to local communities where the Company operates. The second most significant group of projects are those intended for society in general, representing 23% of the beneficiaries. In third place, with 13% and 12% respectively, are persons in vulnerable circumstances and women. These are followed by students, accounting for 9% and nearly 99.000 people.

6. Association, collaboration or sponsorship activities

In 2018, 100% of the projects were managed through strategic alliances with public and private bodies, a sign of ENDESA's commitment to contribute in long-lasting projects. The Company has collaborated with a total of 1.671 public and private institutions in the development of 163 projects carried out in the social arena. Primary and secondary education centres and public institutions share the highest participation, with 42% each. NGOs and Foundations of a social nature represent 7% and the rest are universities, social and environmental platforms and cultural entities.

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 2018 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 “Sustainable Supply Chain” project are not only aimed at assessing the occupational health and safety parameters, but also include environmental and ethical management criteria and respect for human rights.

1.2. How the Organisation manages each material aspect – ENDESA’s 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 2018 and the new objectives set for the coming years.

The complete details of all the supply chain management objectives can be found in the 2018 Sustainability Report, at www.endesa.com

Fulfilment of the main supply chain objectives in ENDESA’s 2018-2020 Sustainability Plan (PES)

Area 2018-2020 PES	Description of the objective	2018 objective	2018 result	Degree of fulfilment
Supply chain	% of ratings performed on suppliers in which occupational health and safety aspects are verified	80%	80%	100%
	% of ratings performed on suppliers in which human rights aspects are verified	80%	80%	100%
	% of ratings performed on suppliers in which environmental aspects are verified	80%	80%	100%

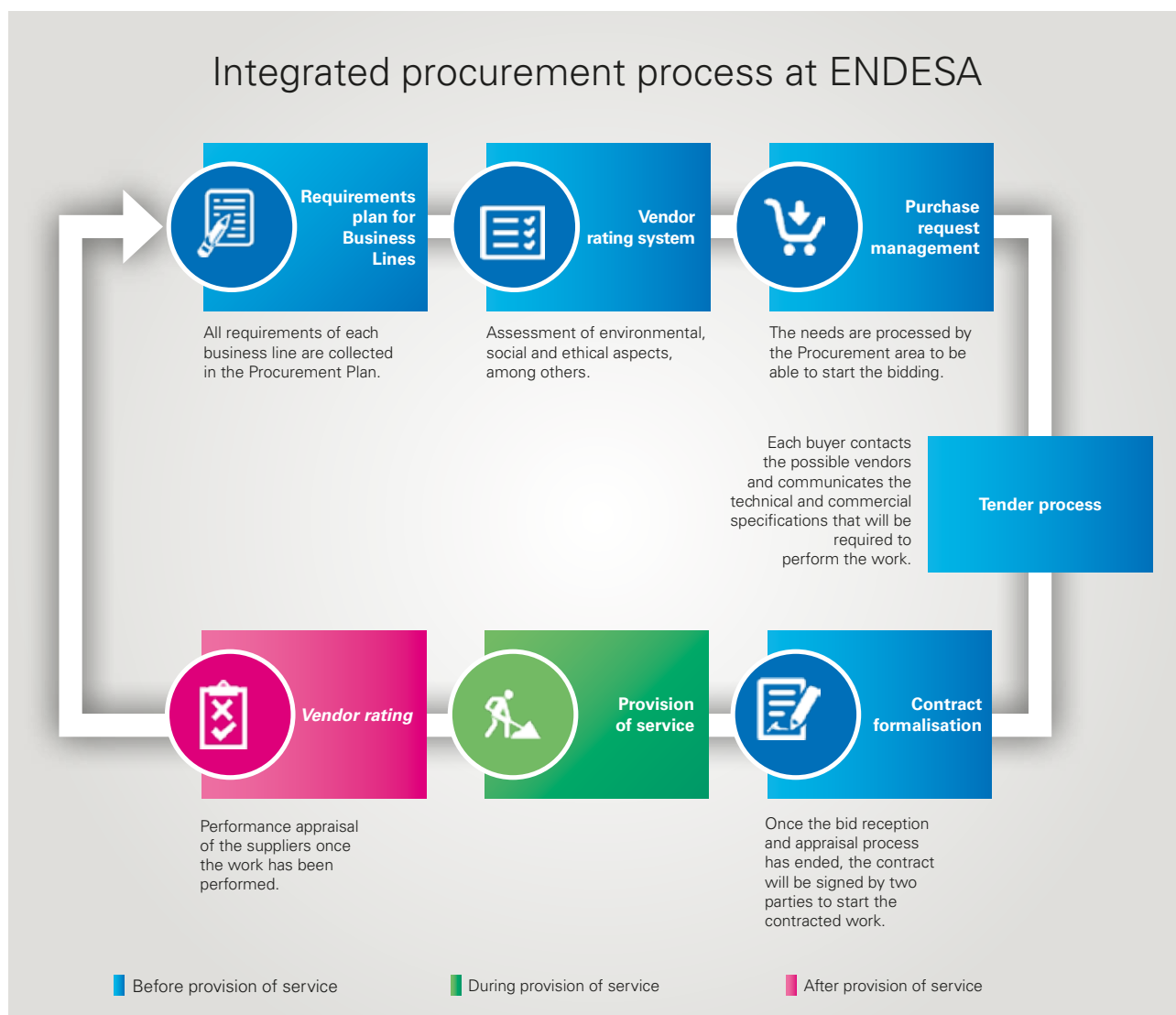
New supply chain objectives for ENDESA’s 2019-2021 Sustainability Plan (PES)

Area 2019-2021 PES	Main objectives	2019 objective	2021 objective
Supply chain	% of ratings performed on suppliers in which occupational health and safety aspects are verified	85%	100%
	% of ratings performed on suppliers in which human rights aspects are verified	85%	100%
	% of ratings performed on suppliers in which environmental aspects are verified	85%	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. As an additional requirement for sustainability in occupational health and safety, in the second half of 2018 it became mandatory for suppliers to complete the SHE 365 safety questionnaires to receive ratings. This represents a more thorough analysis of company standards regarding safety and the environment.





3. Supplier rating policy according to social criteria, labour relations, human rights, gender equality and environmental criteria

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 2018 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 2018, accounted for 80.3% 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 entered into force in April 2017, and apply to the entire base of suppliers rated in families that require it 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 2018, the supplier rating system had been implemented in 194 purchasing families, 134 global families (international rating), and in 60 local families at ENDESA.

In 2018, 100% of ENDESA's newly rated suppliers 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. Supplier selection policy according to social criteria, labour relations, human rights, gender equality and environmental criteria

In addition to the explanations above regarding the supplier rating process, the Company is aware of the need to expand its commitment to the supply chain; therefore, in 2018 ENDESA began applying sustainability criteria in its products and services bids. It has developed a library of social, environmental and ethical indicators from which to choose the most appropriate ones for the product or

service included in each bid, and the performance of potential suppliers with regard to these indicators is taken into account and assessed, along with the economic and technical proposal.

This method has already been applied in 19 tenders throughout 2018, including the two largest, and will continue to be applied systematically in all new tenders from 2019.

5. Endesa Local Suppliers

Local suppliers are suppliers of materials, products and services located in the same geographical market where the Organisation operates (that is, no international payments are made to the supplier).

% of local suppliers

2016	94.62 %
2017	92.09 %
2018	84.07 %

Expense in local suppliers (thousands of euros)

2016	1,881,324
2017	1,737,896
2018	2,230,176

6. Measures taken to apply the international employment conventions (ILO; OECD) in the supply chain

6.1. 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 company Enel. This initiative informs suppliers of the expectations of Bettercoal members as regards their practices, based on four core guidelines: 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.

6.2. Operations submitted to reviews or assessments of the human rights impact

Major suppliers are those with signed contracts whose total worth is equal to or greater than Euros 1.5 million.

In 2018, 248 new contractors were booked that exceeded the amount of Euros 1.5 million (212 local and 36 foreign).

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 remuneration, 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 that have been assessed according to human rights criteria

Major suppliers and contractors that have been assessed in matters of human rights	2016	234
	2017	193
	2018	248
% of major suppliers and contractors that have been assessed in matters of human rights	2016	100%
	2017	100%
	2018	100%

In addition, Endesa's local family supplier rating process in 2018 analysed a total of 145 suppliers for compliance with human rights (through the analysis of a questionnaire drawn up for said purpose and distributed in the rating circuit) regarding 195 new or renewed rating processes that were completed in that year. In addition, the assessments of compliance with human rights of another 326 suppliers rated in previous years were updated, resulting in a total of 471 suppliers assessed in this matter within the local rating system.

Expanding the base to rated suppliers (local and in groups of goods of international importance), which totalled 1.078, a total of 859 suppliers were assessed for compliance with human rights in 2018, representing 79.7% of rated suppliers for Endesa, which is almost the 80% established as the goal in the sustainability plan.

6.3. Operations submitted to reviews or assessments of the impact on suppliers and subcontractors of their social and environmental responsibility

The supplier rating system was commenced in 2009 to reinforce compliance with the applicable legal, employment, security and environmental protection regulations. It determines whether a supplier complies with the requirements to work with ENDESA.

ENDESA bolstered the controls on compliance with the supplier integrity requirements in the groups of items and the most sensitive contracts in this regard.

During 2018, 195 ratings were conducted (whether new or renewed due to their expiry), which revealed the absence of critical information regarding corruption by using verification databases such as World Check. In all cases, the suppliers provided the mandatory Declaration of Good Standing.

ENDESA assesses whether the contractors have the requested environmental requirements and examine the per-

formance and organisational quality and management of these companies as regards environmental responsibility using a series of information sources and the documents sent by the company.

During 2018, 195 ratings were conducted (whether new or renewed due to their expiry), which revealed environmental compliance through appropriate scores in questionnaires dealing with this matter that form part of the sustainability rating process. Of this total, 131 assessments obtained an optimal score, 62 received a passing score (for low or medium risk activities) and two cases required an environmental audit.



Table of contents required by Law 11/2018, dated 28 December, on non-financial information and diversity

Contents of the Non-Financial Statement	Contents in Law 11/2018	Reporting framework
Organisation		
1. Business model for the management and organisation of Company activities	Description of the business model	GRI 102-1 to 102-6
1.1. Name of the organisation	Organisation	GRI 102-7
1.2. Activities, brands, products and services	Structure	GRI 102-2
1.3. Location of the registered office		GRI 102-3
1.4. Location of operations	Business environment	GRI 102-4
1.5. Criteria for the preparation of the Consolidated Non-Financial Statement	Reporting framework	Based on the Global Reporting Initiative (GRI Standards) and its "Electric Utilities Sector Supplement"
1.6. Ownership and legal form	Organisation and structure	
1.7. Markets supplied	Markets where it operates	GRI 102-7
1.8. 2019-2021 Strategic Plan; Objectives and Strategy	Objectives and Strategy	GRI 102-14, 102-15
1.9. Factors and trends that may affect our progress in the future	Primary factors and trends that can affect its progress in the future	GRI 102-15
2. ENDESA dimensions		GRI 102-7
2.1. Endesa in figures	Financial assistance. Public subsidies received Contributions to foundations and non-profit organisations	GRI 201-4
2.2. Tax information by country	Taxes paid on income	GRI 201-1, 201-4
3. Significant organisational changes	Organisation and structure	GRI 102-10
4. Commitment to a sustainable energy model	Objectives and Strategy	GRI 102-14, 102-15
5. Dialogue with the stakeholders	Social dialogue	GRI 102-43
6. Materiality study: Identification of priorities based on dialogue with stakeholders	Key non-financial result indicators that are pertinent to the specific business activity and comply with the criteria of comparability, materiality, relevance and reliability	GRI 102-21, 102-46, 102-47
7. ENDESA's Sustainability Plan	Company committed to sustainable development	GRI 103-1 103-2

Risk management		
1. Risk control and management policy	Risk policy. Significant risks and impacts and their verification and control	GRI 103-1
2. Criminal regulatory and anti-bribery compliance policy	Risk policy. Significant risks and impacts and their verification and control	GRI 103-1
3. Main sustainability risks - Impacts, risks and opportunities related to environmental and social matters	Main risks associated with the Group's activity. Short-, medium- and long-term risks Prevention of risks of violating human rights and measures to mitigate, manage and repair possible abuses	GRI 102-15
Respect for Human Rights		
1. Human rights policy at ENDESA	Human rights policy	GRI 103-1, 103-2
2. The due diligence process	Due diligence processes	GRI 102-16, 102-17, 412-2
3. Opportunities for improvement and action plan	Due diligence processes	GRI 102-16, 102-17, 412-2
4. Complaints and claims mechanisms	Complaints regarding violations of human rights	GRI 102-17, 406-1
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	Remuneration of directors	GRI 102-22, 102-24.102-24, 405-1
Fight against corruption and bribery		
1. Material aspects and objectives	Measures adopted to prevent corruption and bribery	GRI 103-1.103-2, 103-3
2. Policies implemented by the company regarding corruption and bribery	Measures adopted to prevent corruption and bribery	GRI 102-16, 102-17
2.1. Code of Ethics	Measures adopted to prevent corruption and bribery	GRI 415-1, 103-1.103-2, 103-3
2.2. Zero Tolerance Plan against Corruption	Measures adopted to prevent corruption and bribery	GRI 103-1
2.3. Anti-bribery policy (GRI Focus on anti-corruption management)	Measures adopted to prevent corruption and bribery	GRI 103-1.103-2, 103-3
2.4. Criminal Risk Prevention Model	Measures adopted to prevent corruption and bribery	GRI 103-1.103-2, 103-3
3. Cases of corruption complaints and corrective measures taken	Measures adopted to prevent corruption and bribery Measures to combat money-laundering	GRI 205-3
4. Measures to combat money-laundering	Measures to combat money-laundering	GRI 102-16, 102-17
Environmental sustainability		
1. Material aspects and objectives	Medium and long-term goals to reduce greenhouse gases	GRI 103-1.103-2, 103-3
2. Environmental policy	Description of the policies applied by the Group in these matters	GRI 103-2
3. Business model: Fight against climate change	Measures taken to adapt to the consequences of climate change	GRI 102-15
4. Environmental management	Current and foreseeable effects of company activities on the environment and health and safety; assessment or certification processes, resources allocated	GRI 102-15
4.1. Current and foreseeable effects of company activities on the environment and health and safety	Current and foreseeable effects of company activities on the environment and health and safety	GRI 103-1, 103-2
4.2. Environmental evaluation or certification process	Environmental evaluation or certification process	GRI 307-1





4.3. Resources dedicated to the prevention of environmental risks	Resources dedicated to the prevention of environmental risks	Internal framework: The total of millions of euros invested in environmental activities has been taken into account
5. Key performance indicators		
5.1. Emissions	Contamination: Emissions Important elements of greenhouse gas emissions generated as a result of the company's activities, including the use of the good and services it produces Measures to prevent or reduce emissions that affect air quality	GRI 305-1, 305-2, 305-3, 305-5, 305-7
5.2. Materials consumed	Sustainable use of resources: Water consumption, raw materials consumption, direct and indirect consumption of energy, measures taken to improve energy efficiency	GRI 302-1a, 302-2, 302-3, 302-4, 303-3, 303-5
5.3. Noise and light contamination	Noise contamination	GRI 307-1
5.4. Circular economy and prevention and waste management	Circular economy and prevention and waste management Measures for prevention, recycling, reuse and other forms of waste recovery and disposal	GRI 306-2
5.5. Renewable energies	Use of renewable energies	GRI 302-1
5.6. Protection of biodiversity	Measures taken to preserve or restore biodiversity Impacts caused by activities or operations in protected areas	GRI 304-2, 304-3
Human resources		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1.103-2, 103-3
2. Human capital policy	Description of the policies applied by the Group in these matters	GRI 103-2
2.1. Leadership and talent development	Description of the policies applied by the Group in these matters	GRI 103-2
2.2. Diversity. Policy against all types of discrimination	Equality Policy. Eliminating discrimination in employment and jobs, forced labour and child labour	GRI 103-1.103-2, 103-3
2.3. Digital disconnection policies	Disconnection from work policies	GRI 103-1.103-2, 103-3
2.4. Training	Training policy	GRI 103-1.103-2, 103-3
3. Key performance indicators		
3.1. Employees	Social and staff-related affairs	GRI 102-8, 405-1, 401-1
3.1.1. Number of employees	Total number	GRI 102-8, 405-1, 401-1
3.1.2. Workforce distribution	Distribution of employees by gender, age, country and professional category	GRI 102-8, 405-1, 401-1
3.1.3. Employees with disabilities	Employees with disabilities	GRI 405-1
3.1.4. Contracts; impact of the Company's activity on employment	Contract types	GRI 102-8
3.1.5. Contract distribution	Fixed-term and part time contracts by gender, age, country and professional category	GRI 102-8
3.1.6. Dismissals	Number of dismissals by gender Number of dismissals by age Number of dismissals by professional category	Internal framework: Total number of disciplinary dismissals during the year, broken down by gender, age and professional category
3.1.7. Measures adopted to promote employment	Measures to promote employment	GRI 103-1.103-2, 103-3

3.2. Remuneration of directors, managers and employees	Average remuneration and over time, broken down by gender, age and professional category. Salary gap Average remuneration of directors (including variable remuneration, per diems, compensation, payment to long-term pension systems and any other amount received by gender Average remuneration of managers (including variable remuneration, per diems, compensation, payment to long-term pension systems and any other amount received by gender	GRI 405-2 Internal framework: Average fixed remuneration: % of women's salary minus fixed remuneration of men. The salary gap has taken into account fixed salaries, variable salaries and social benefits
3.3. Organisation of work	Organisation of working time. Number of absentee hours. Measures intended to facilitate enjoyment of work-life balance	GRI 403-2
3.4. Social relationships	Organisation of social dialogue, including procedures to inform and consult with staff and negotiate with them. Percentage of employees covered by collective agreements per country	GRI 402-1, 403-1, 403-4, 102-41
3.5. Training	Policies implemented in the training sphere. Total number of training hours by professional category	GRI 404-1, 412-2
3.6 Equality	Measures adopted to promote equal treatment. Equality plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality of women and men), measures adopted to promote employment, protocols to prevent sexual harassment Protocols for the prevention of sexual harassment. Universal integration and accessibility of persons with disabilities	GRI 103-1
Occupational health and safety		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1.103-2, 103-3
2. Occupational health and safety policies	Health and safety conditions	GRI 414-1
3. Key performance indicators	Occupational accidents by gender Frequency and severity by gender Professional diseases by gender	GRI 403-9, 403-10
Customers		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1.103-2, 103-3
2. Complaint and complaint-solving systems	Claims, complaints received and resolutions	GRI 103-1.103-2, 103-3, 418-1
3. Consumer health and safety protection measures	Consumer health and safety protection measures	GRI 103-1.103-2, 103-3, 416-1
Responsible relationship with the communities		
1. Material aspects and objectives	Objectives and strategy	GRI 103-1.103-2, 103-3
2. Relationship policy with local communities	Description of the policies applied by the Group in these matters	GRI 103-2
3. Operations with participation in the local community, impact assessments and development programmes	Impact of the company's activity on local populations and the territory. Relationships with the players in local communities	GRI 413-1, 413-2
4. Key performance indicators	Employment and local development	GRI 413-1, 413-3
5. Project impact measurement	Impact of the company's activity on local populations and the territory.	
6. Association, collaboration or sponsorship activities	Association, collaboration or sponsorship activities	GRI 204-1





Supply chain

1. Material aspects and objectives	Objectives and strategy	GRI 103-1.103-2, 103-3
2. Description of the supply chain and significant changes therein	Consideration of their social and environmental responsibility in relationships with suppliers.	GRI 102-9, 102-10
3. Supplier rating policy according to social criteria, such as labour relations, human rights, gender equality and environmental criteria	Inclusion of social, equality and environmental matters in the purchases policy. Supervision and audit systems	GRI 103-2
4. Supplier selection policy according to social criteria, such as labour relations, human rights, gender equality and environmental criteria	Inclusion of social, equality and environmental matters in the purchases policy. Supervision and audit systems	GRI 103-2
5. Local suppliers	Impact of the Company's activity on employment and local development.	GRI 204-1
6. Measures taken to apply the international employment conventions (ILO; OECD) in the supply chain	Promotion and compliance with the provisions of essential ILO agreements associated with the respect of freedom of association and the right to collective negotiation	GRI 407-1, 408-1, 409-1, 414-1, 308-1

Auditor's review

GRI 102-56

Independent verification report on the Non-Financial Statement

ENDESA, S.A. and Subsidiaries

Independent Verification Report on the Consolidated
Non-Financial Statement for the year ended
31 December 2018



**Independent Limited Assurance Report of the Non-Financial Statement
for the year ended December 31, 2018**

ENDESA S.A. and Subsidiaries



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Translation of a report originally issued in Spanish. In the event of discrepancy,
the Spanish-language version prevails

INDEPENDENT LIMITED ASSURANCE REPORT OF THE CONSOLIDATED NON-FINANCIAL STATEMENT

To the Shareholders of ENDESA, S.A.:

Pursuant to article 49 of the Code of Commerce we have performed a verification, with a limited assurance scope, of the accompanying Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2018, of ENDESA S.A. and subsidiaries (hereinafter, the Group), which is part of the Director's Report of the Group.

Responsibility of the Directors

The Board of Directors of ENDESA, S.A. is responsible for the approval and content of the NFS included in the Director's Report of the Group. The NFS has been prepared in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the section: "Table of contents required under Law 11/2018 of December 28 on disclosure of non-financial and diversity information", included in the aforementioned Statement.

The directors are also responsible for the design, implementation and maintenance of such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

ENDESA, S.A. administrators are further responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the NFS is obtained.

Our independence and quality control procedures

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 is based on the fundamental principles of integrity, objectivity, professional competence, diligence, confidentiality and professionalism.

Our Firm complies with the International Standard on Quality Control No. 1 and thus maintains a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards, as well as applicable legal provisions and regulations.

The engagement team consisted of experts in the review of Non-Financial Information and, specifically, in information about economic, social and environmental performance.

Domicilio Social: Calle de Raimundo Fernández Villaverde, 65. 28003 Madrid - inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª. C.I.F. B-78970506.
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Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, that refers exclusively to 2018. Information on prior years was not subject to the verification required by prevailing mercantile regulations. Our review has been performed in accordance with the requirements established in prevailing International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the Guide for Non-Financial Statement verification engagements, issued by the Spanish Institute of Chartered accountants.

The procedures carried out in a limited assurance engagement vary in nature and timing and are smaller in scope than reasonable assurance engagements, and therefore, the level of assurance provided is likewise lower.

Our work consisted in requesting information from Management and the various Group units participating in the preparation of the NFS, reviewing the process for gathering and validating the information included in the NFS, and applying certain analytical procedures and sampling review tests as described below:

- ▶ Meeting with Group personnel to know the business model, policies and management approaches applied, the main risks related to these matters and obtain the necessary information for our external review.
- ▶ Analyzing the scope, relevance and integrity of the content included in the NFS based on the materiality analysis made by the Group and described in the section "The Organization of ENDESA GROUP", considering the content required by prevailing mercantile regulations.
- ▶ Analyzing the processes for gathering and validating the data included in the 2018 Non-Financial Statement.
- ▶ Reviewing the information on the risks, policies and management approaches applied in relation to the material aspects included in the NFS.
- ▶ Checking, through tests, based on a selection of a sample, the information related to the content of the 2018 NFS and its correct compilation from the data provided.
- ▶ Obtaining a representation letter from the Directors and Management.

Conclusion

Based on the procedures performed in our verification and the evidence obtained, no matter came to our attention that would lead us to believe that the 2018 NFS of the Group has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and the criteria of the selected GRI standards, as well as other criteria described in accordance with that indicated for each subject in the section: "Table of contents required under Law 11/2018 of December 28 on disclosure of non-financial and diversity information", included in the aforementioned Statement.

Use and distribution

This report has been prepared as required by prevailing mercantile regulations in Spain and may not be suitable for any other purpose or jurisdiction.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

Alberto Castilla Vida

February 25, 2019

The Consolidated Management Report of ENDESA, Sociedad Anónima and its SUBSIDIARY COMPANIES for fiscal year ending December 31, 2018, as provided herein, was drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on February 25, 2019 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 25, 2019

Published by:

Dirección General de Comunicación

Design:

Dirección General de Comunicación / Moonbook

Payout and proding:

Moonbook

Printing:

Moonbook

National Book Catalogue Number:

M-10105-2019

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Seeding Energies. Curiosity is the power of today.

Curiosity is the energy that encourages us to grow more and more each day, to tackle the present and look to the future with enthusiasm.

Curiosity is a journey of discovery that leads us to value diversity, build relationships and establish trust.

Brilliant ideas and ever-new achievements make the difference, creating value for our customers, for the communities where we work, for our people and shareholders.

Because it is through the power of curiosity, cooperation and engagement with others that we can safeguard and protect our planet in a sustainable way together.