Seeding Energies
2017 Activities Report

endesa

ENDESA was established in 1944 with the name of Empresa Nacional de Electricidad, S.A. On 25 June 1997, the General Shareholders' Meeting changed its name to the current one, ENDESA, S.A.

Its primary business is the production, distribution and marketing of electricity. The company is also a major operator in the natural gas industry and also performs other energy-related services.

ENDESA is the leading company in the Spanish electricity sector and the second operator in the Portuguese electricity market, with total assets of 31,037 million euros as of 31 December 2017.

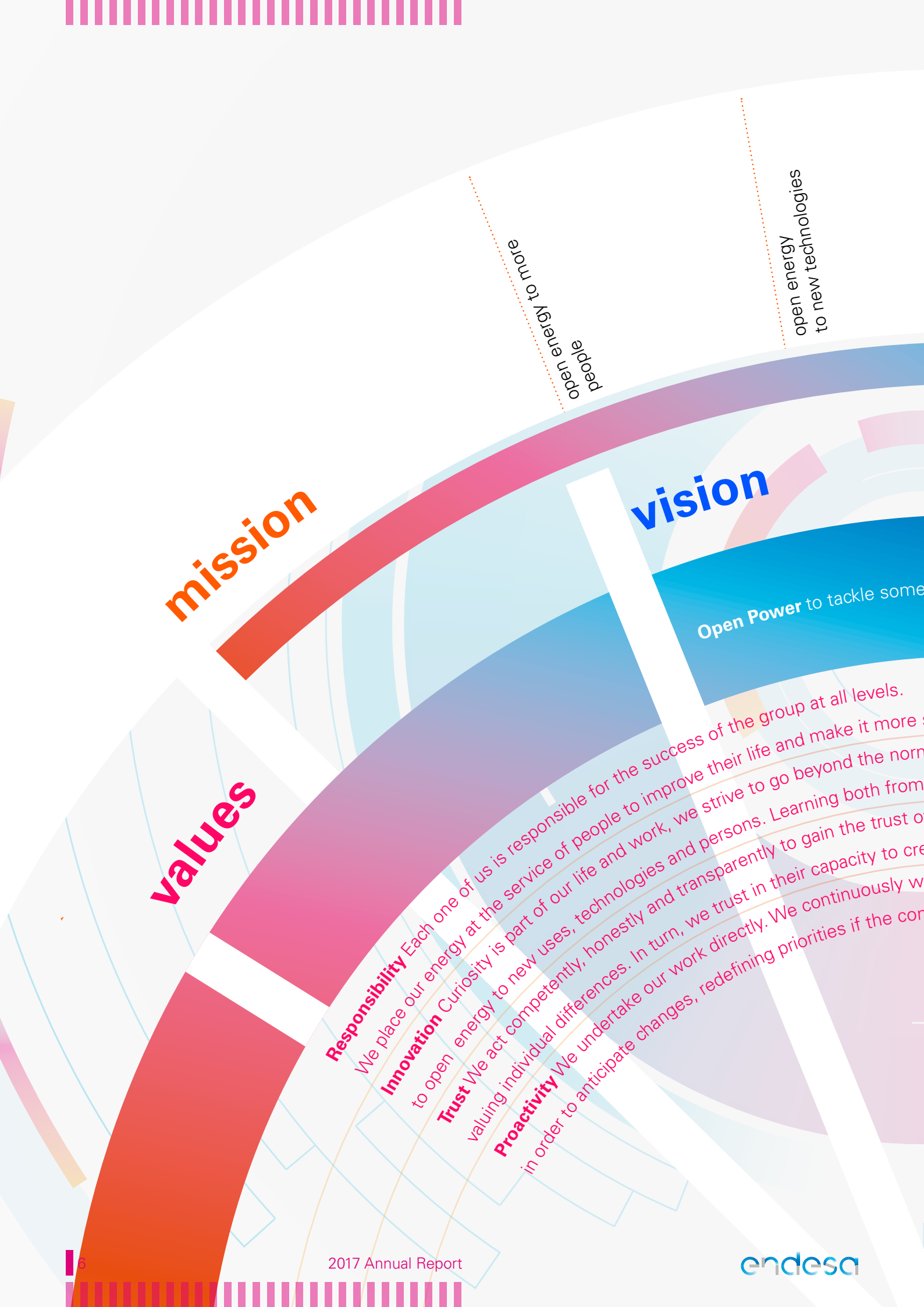
ENDESA, S.A. is entered in the Madrid Commercial Registry, volume 323, book 1, folio 143, page M6405. Its corporate headquarters and main offices are at Calle Ribera del Loira, no. 60, 28042 Madrid, and its tax identification number (NIF) is A28023430.

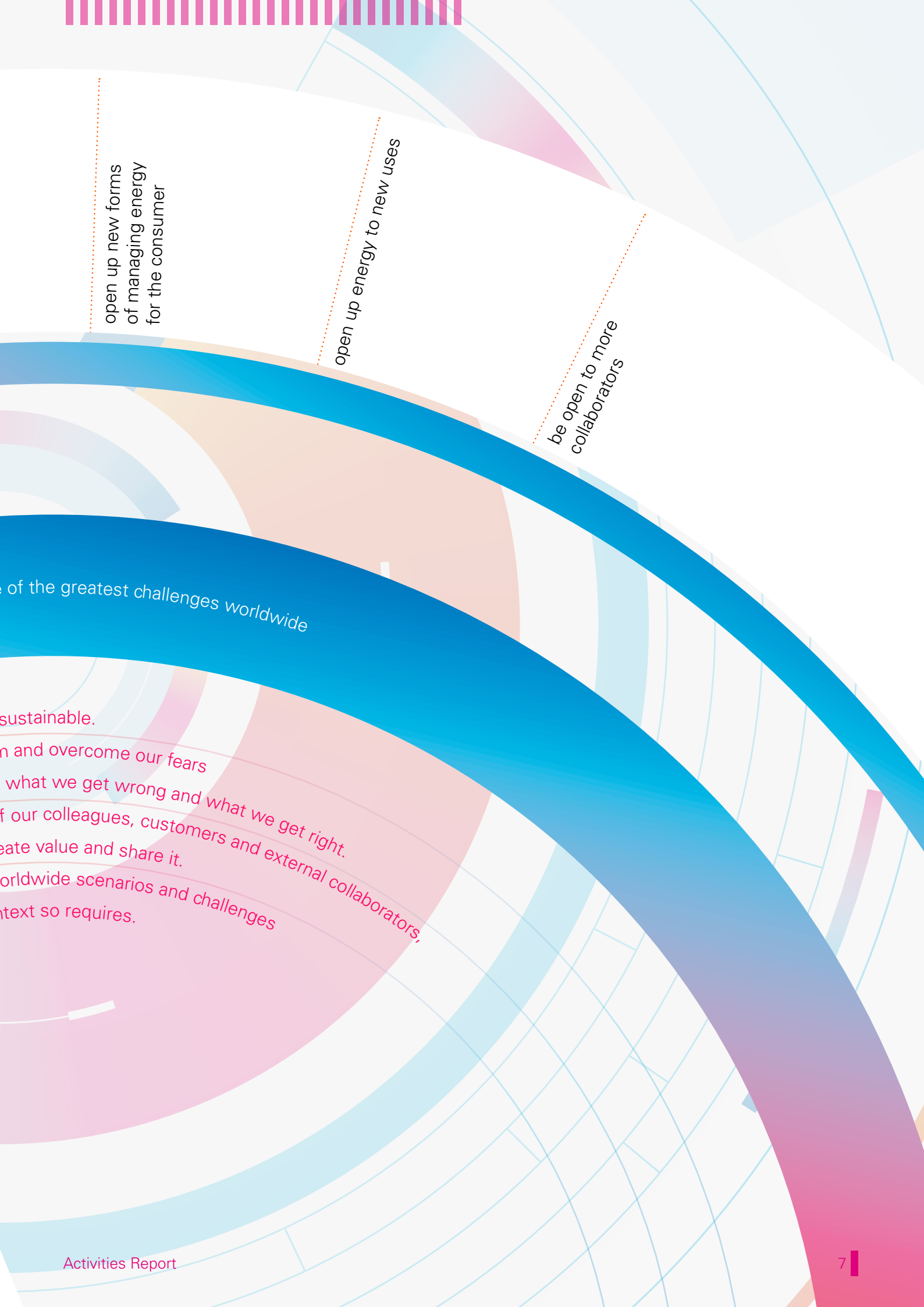
On 31 December 2017, ENDESA, S.A.'s share capital is 1,270,502,540.40 euros represented by 1,058,752,117 shares with a nominal value of 1.20 euros, totally subscribed and paid up, which are fully admitted to be listed on the Spanish stock exchanges.

In 2017, ENDESA obtained total revenue of 20,057 million euros, gross operating result of 3,542 million euros, an operating result of 2,031 million euros and a net profit of 1,463 million euros.

At the end of 2017, the company employed 9,706 persons in Spain and Portugal.

Index


open energy to more people
open energy to new technologies
mission
vision
values
Open Power to tackle some
Responsibility Each one of us is responsible for the success of the group at all levels.
We place our energy at the service of people to improve their life and make it more
Innovation Curiosity is part of our life and work, we strive to go beyond the norm
to open energy to new uses, technologies and persons. Learning both from
Trust We act competently, honestly and transparently to gain the trust o
valuing individual differences. In turn, we trust in their capacity to cre
Proactivity We undertake our work directly. We continuously w
in order to anticipate changes, redefining priorities if the con


open up new forms of managing energy for the consumer
open up energy to new uses
be open to more collaborators
e of the greatest challenges worldwide
sustainable.
n and overcome our fears
what we get wrong and what we get right.
f our colleagues, customers and external collaborators,
eate value and share it.
orldwide scenarios and challenges
ntext so requires.

Letter from the Chairman

Dear Shareholder:

For one more year, I have the pleasure of presenting you the ENDESA Activity Report, providing a special opportunity to personally address all our shareholders and review the achievements of our Company during the 2017 financial year.

The pages following this letter will provide you with an exhaustive breakdown of the business information and numbers attesting to our success, so therefore in this regard, I would like to focus on our intangible assets - that part of our Company that cannot be summarized numbers, but is just as important in terms of what it means and involves.

ENDESA faces a significant challenge in the coming years: to be the company that will conduct an orderly energy transition in our country, steering us toward an emission-free, sustainable and profitable energy model free, that sets new goals and opportunities for the coming generations.

We have all the necessary requirements for this - the talent, experience and knowledge of the almost ten thousand employees in Spain and Portugal that manage the progress of our company every day with security. The innovative and courageous attitude of all of our employees at ENDESA is what makes it possible for us to speak for one more year of efficiency and competitiveness when we look at the results, the customer figures and production data.

ENDESA knows how to be prudent when need be In times that have not always been easy; to arrive at agreements when necessary and to understand that either we all contribute to the public discussion or else Spain will lose a unique opportunity to be in one of the top positions in Europe in this transition.

2017 cannot exactly be described as a year of political stability on the national and international level that we would have wanted. Neither the weather conditions nor the substantial increase in wholesale energy prices critical to our business have been favourable. But once again, ENDESA has outdone itself, and with our shareholders constantly in mind, has closed the year with an increase in net profits of 4%. Profits that enable us to offer a dividend in 2018 of 1.382 euros per share, 5% higher than the minimum that we had promised.

It has been our understanding for some time that improving the lives of energy consumers must be our obsession. Every year we expand our range of offers and services so that all our clients, both private and industrial, can be more efficient, more sustainable and more competitive.

Innovation is what we have been practising ever since our Company was founded. And we believe that innovation is the only path to transform our environment and put Spain in the leading group. And we have the courage to take this path, aware that being first involves risks, but also tremendous opportunities that are not available to those who lag behind.

Our energy mix is constantly becoming more and more sustainable and emission-free, just as was established in the European decarbonisation objectives for 2050. We are a benchmark in the fields of digitalisation, in commitment to the electric vehicle, in the use of the latest technology in grid review processes, digital invoicing and smart meters and smart cities. And we will continue to be, with the support of our shareholders.

The present and the future of everything is marked by the struggle against climate change. Meeting the decarbonisation commitments for 2050 and reaching the zero emission objective are our most relevant joint missions. This roadmap that must guide us in everything is the core of our activity, and among other things it prioritises the investments of the Company, establishes senior management compensation and awards our employees' ideas; with our mission to provide high quality, competitive service to our customers while at the same time offering the maximum profitability to our shareholders always prevailing.

Borja Prado Eulate
Chairman, ENDESA

Letter from the Chief Executive Officer

Dear Shareholder:

Once more, it is my pleasure to present the Endesa Activities Report , in order to report on the management we have carried out over the past financial year and what are our key objectives for the immediate future.

2017 saw severe drought and significant increases in raw material prices - two events that have had an unfavourable effect on the evolution of energy markets. However, thanks to the efforts and dedication of our excellent staff here at ENDESA, we have dealt successfully with this difficult scenario, and we have been able to present very satisfactory annual results; our EBITDA has grown by 3% in 2017, resulting in 3,542 million euros, and net profits have increased by 4%, reaching 1,463 million euros.

Among the factors positively influencing the increase in EBITDA, the following stand out: the contribution of Enel Green Power España (EGPE), the increase in our gross regulated business margin, the reduction in fixed costs and income due to return of the subsidised rate for the years 2014-2016.

All of this has enabled us, for one more year, to meet the commitments that we have to all of you, our shareholders, and especially to continue assuring you an attractive return on investment through our dividend policy. Specifically, the proposal is to distribute an ordinary dividend of 1.382 euros per share for the past financial year, which results in an increase of 4% over the previous year and makes ENDESA the IBEX-35 company that provides the best profitability per dividend.

Furthermore, we continued to take significant steps in 2017 toward becoming a company that is 100% emission-free, client focused, fully digitalised and sustainable.

In fact, we were awarded 879 MW of new renewable capacity in the auctions held throughout the year. I should add to that the purchase in 2018 of an additional 132 MW distributed across five wind farm projects. What's more, our

emission-free generation accounted for 44% of our total production in 2017.

As for our customers, we are fully aware that they are the true source of value for our business. One good example of this is that under a resolution adopted in 2017 by the entire Enel Group, of which we are a member, we have created a new line of business to promote our new value-added products and services, including digital solutions for the home, electrical mobility, efficient public lighting, more innovative and flexible solutions for the industry, etc.

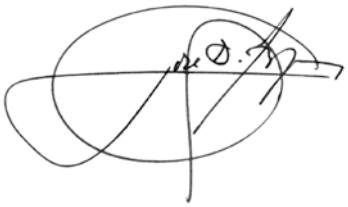
In benefit of our customers, there are also efforts dedicated to the extension, modernisation and automation of our electric grids, to which we have devoted 5,800 million euros since 2010, making us the Spanish electric company that is investing the most in this area.

With regard to digitalisation, we have continued promoting digital transformation in 2017, both for our industrial assets and for the people working at the Company, thanks to technologies like artificial intelligence, *machine learning*, *big data* or *advanced analytics*.

Finally, sustainability has been a strategic priority for years of our corporate behaviour. For this reason, we have included among our priorities contributing to the fulfilment of the United Nations Sustainable Development Goals (SDG) that are most closely related to our business activity: the struggle against climate change, access to energy and innovation to transform the energy system.

In the final analysis, with these lines of action, which make up the backbone of our Industrial Plan for the 2018-2020 period, we are laying the foundation to make ENDESA a decarbonised, sustainable and digitalised company, capable of making a relevant contribution to the growth and competitiveness of the economy of our country and the well-being of its citizens.

For that purpose, we will continue to rely on our strengths as a solid, responsible company committed to Spanish society; on the talent and dedication of our approximately 10,000 employees at ENDESA; and of course on the trust that we receive from you, our shareholders, year after year, for which we feel honoured and grateful.



José D. Bogas Gálvez
Chief Executive Officer, ENDESA

Key economic-financial figures

Figures of the Balance Sheet (millions of euros)	2014	2015	2016	**2017**
TOTAL ASSETS	**30,696**	**29,245**	**30,960**	**31,037**
Business in Spain and Portugal	30,696	29,245	30,960	31,037
Business in Latin America	0	0	0	0
TANGIBLE ASSETS	**21,104**	**20,815**	**21,891**	**21,727**
Business in Spain and Portugal	21,104	20,815	21,891	21,727
Business in Latin America	0	0	0	0
LIABILITIES	**22,121**	**20,206**	**21,872**	**21,804**
Business in Spain and Portugal	22,121	20,206	21,872	21,804
Business in Latin America	0	0	0	0
PARENT COMPANY EQUITY	**8,576**	**9,036**	**8,952**	**9,096**
Business in Spain and Portugal	8,576	9,036	8,952	9,096
Business in Latin America	0	0	0	0
MINORITY INTERESTS EQUITY	**-1**	**3**	**136**	**137**
Business in Spain and Portugal	-1	3	136	137
Business in Latin America	0	0	0	0
NET FINANCIAL DEBT	**5,420**	**4,323**	**4,938**	**4,985**
Business in Spain and Portugal	5,420	4,323	4,938	4,985
Business in Latin America	0	0	0	0

Income Statement Figures (millions of euros)	2014	2015	2016	2017
OPERATING REVENUE	**21,512**	**20,299**	**18,979**	**20,057**
Business in Spain and Portugal	21,512	20,299	18,979	20,057
Business in Latin America	0	0	0	0
OPERATING RESULT (EBIT)	**1,472**	**1,598**	**1,965**	**2,031**
Business in Spain and Portugal	1,472	1,598	1,965	2,031
Business in Latin America	0	0	0	0
PROFIT AFTER TAXES AND MINORITY INTERESTS	**3,337**	**1,086**	**1,411**	**1,463**
Business in Spain and Portugal	950	1,086	1,411	1,463
Business in Latin America	2,387	0	0	0
GROSS OPERATING PROFIT	**3,090**	**3,039**	**3,432**	**3,542**
Business in Spain and Portugal	3,090	3,039	3,432	3,542
Business in Latin America	0	0	0	0

Main Economic Flows (millions of euros)	2014	2015	2016	2017
NET FLOWS FROM OPERATING ACTIVITIES	**3,714**	**2,656**	**2,995**	**2,438**
Business in Spain and Portugal	2,869	2,656	2,995	2,438
Business in Latin America	845	0	0	0
TOTAL INVESTMENTS	**2,501**	**1,084**	**1,221**	**1,175**
Business in Spain and Portugal	1,413	1,084	1,221	1,175
Business in Latin America	1,088	0	0	0
DIVIDENDS	**15,410**	**1,086**	**1,411**	**1,463**

Key operating figures

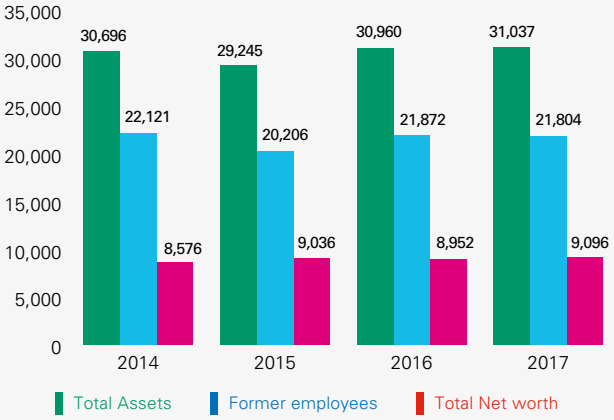
	2014	2015	2016	**2017**
Staff (persons)				
Spain and Portugal	**10,500**	**10,000**	**9,694**	**9,706**
Other countries	0	0	0	0
Capacity (MW)				
Spain and Portugal	**22,677**	**22,164**	**23,691**	**23,678**
Hydroelectric	4,759	4,765	4,765	4,752
Classic thermal	8,798	8,278	8,130	8,130
Thermal-nuclear	3,443	3,443	3,443	3,443
Combined cycles	5,677	5,678	5,678	5,678
Renewables and Cogeneration	—	—	1,675	1,675
Production (GWh)				
Spain and Portugal	**69,681**	**73,061**	**69,831**	**78,648**
Hydroelectric	8,778	7,176	7,173	5,004
Classic thermal	30,602	32,634	28,100	31,906
Thermal-nuclear	24,762	25,756	25,921	26,448
Combined cycles	5,539	7,495	7,425	11,849
Renewables and Cogeneration	—	—	1,212	3,441
Sales (GWh)[1]				
Spain and Portugal	**93,928**	**92,899**	**93,490**	**96,513**
Fixed-price market	16,560	14,934	13,815	12,919
Liberalised market	77,368	77,965	79,675	83,594
Number of customers (thousands)[2]				
Spain and Portugal	**11,206**	**11,112**	**11,016**	**10,848**
Fixed-price market	6,663	6,029	5,593	5,255
Liberalised market	4,543	5,083	5,423	5,593
Energy distributed (GWh)[3]				
Spain and Portugal	**110,945**	**114,190**	**115,602**	**117,961**

[1] Sales to end customer.
[2] Supply points.
[3] At plant bus bars.

Economic figures

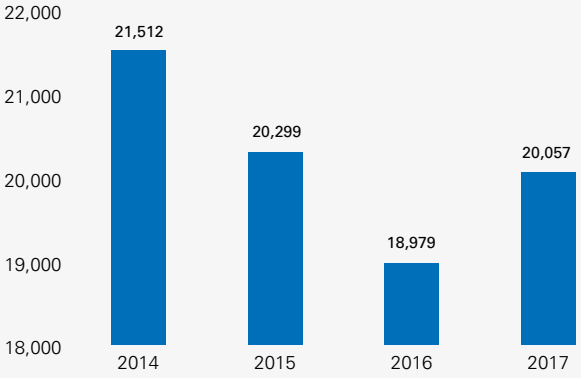
Evolution of Assets, Liabilities and Net Equity

(Figures in millions of euros)



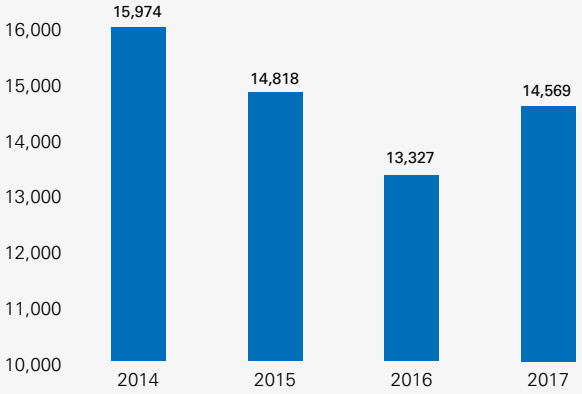
Operating revenue

(Figures in millions of euros)



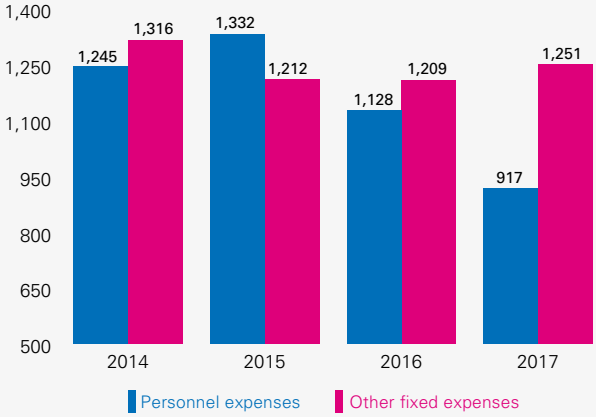
Procurement costs

(Figures in millions of euros)



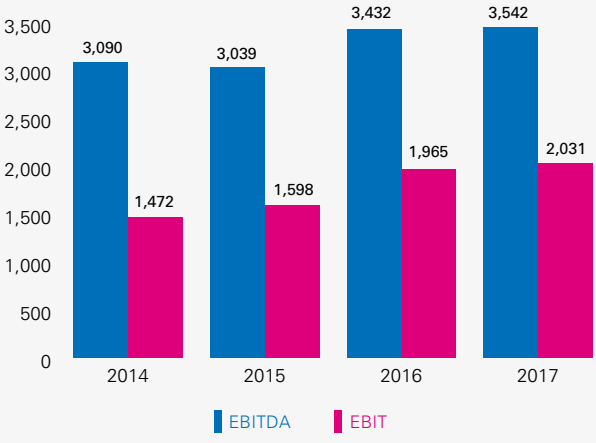
Other fixed operating expenses

(Figures in millions of euros)



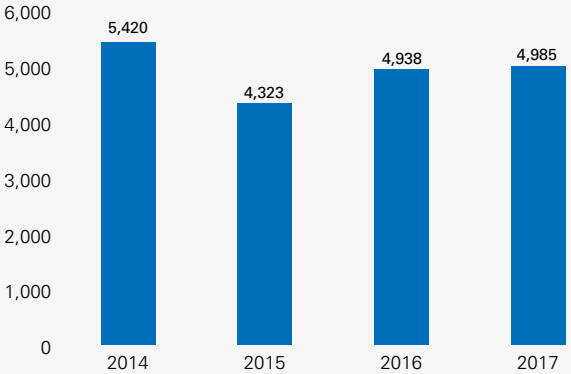
EBITDA and EBIT

(Figures in millions of euros)



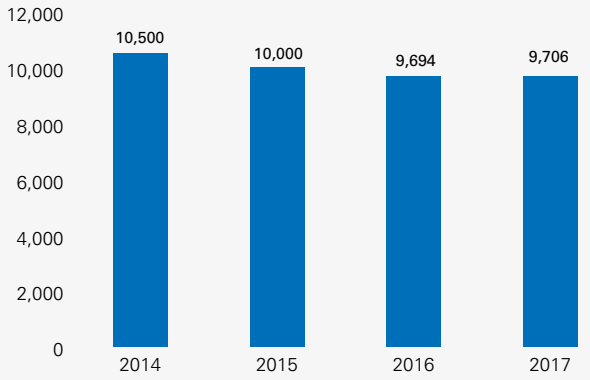
Financial debt

(Figures in millions of euros)

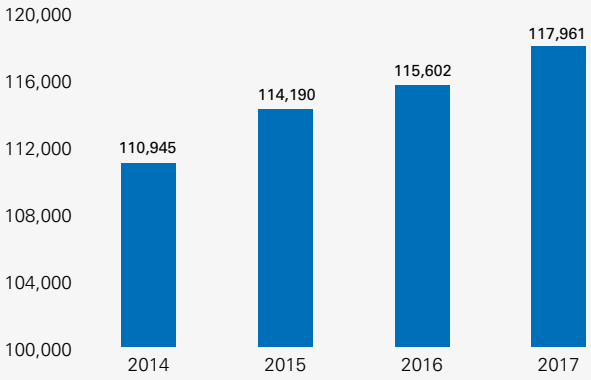


Operational figures

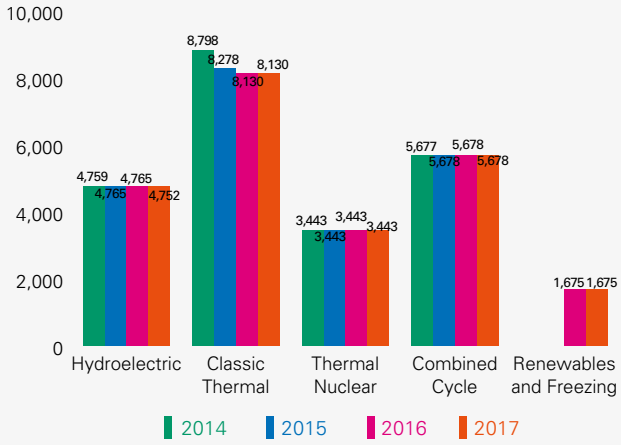
Staff
(persons)



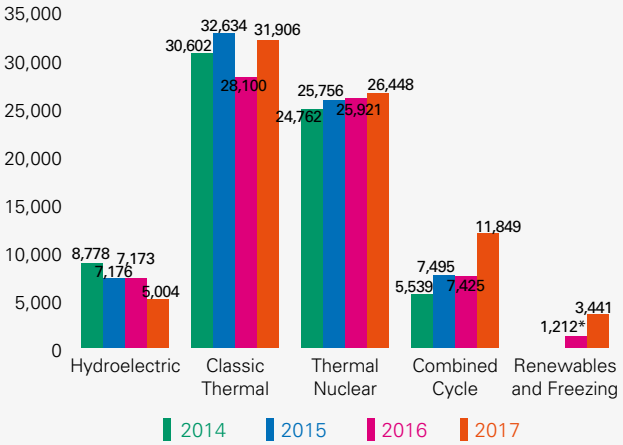
Energy distributed
(GWh at plant bus bars)



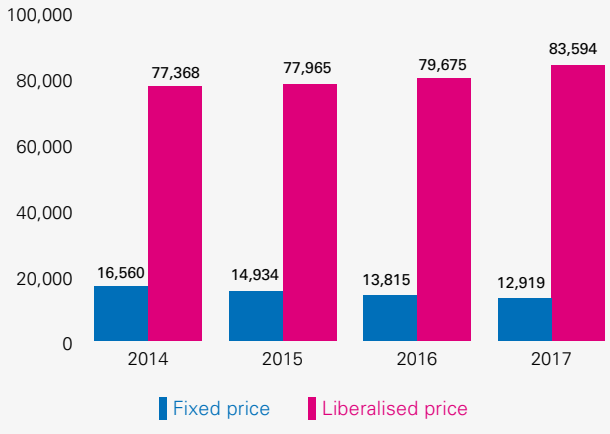
Capacity
(MW)



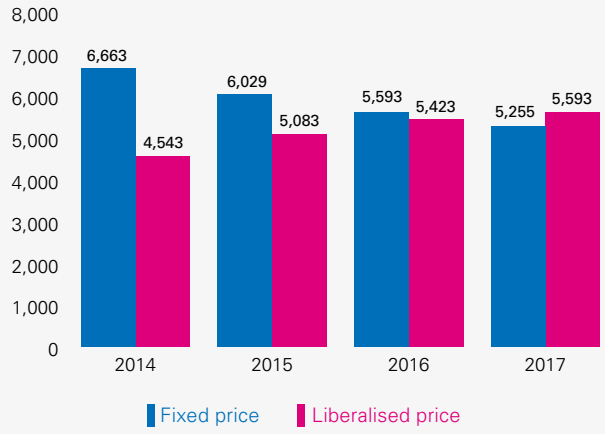
Production
(GWh)



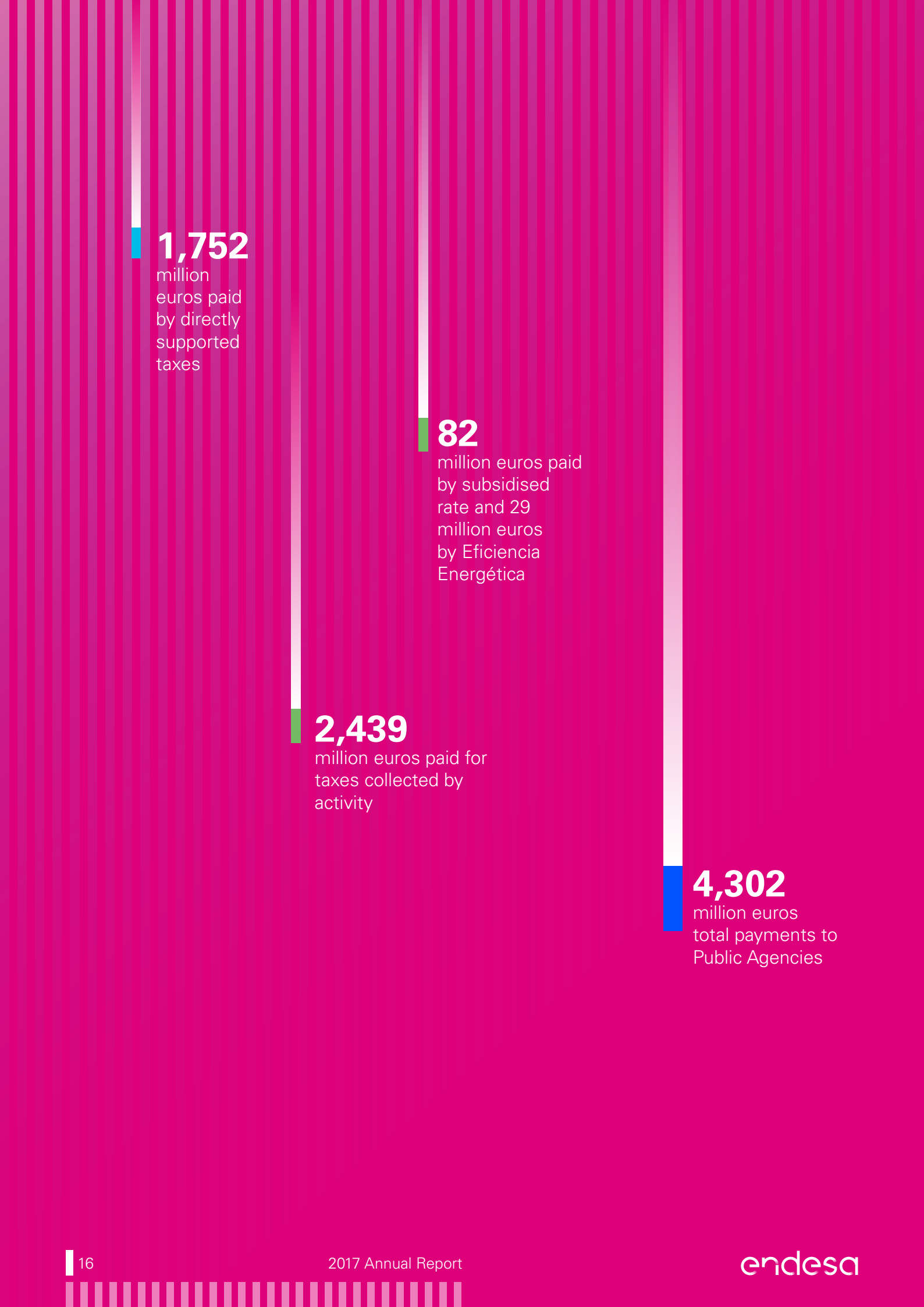
Sales to end customers
(GWh)

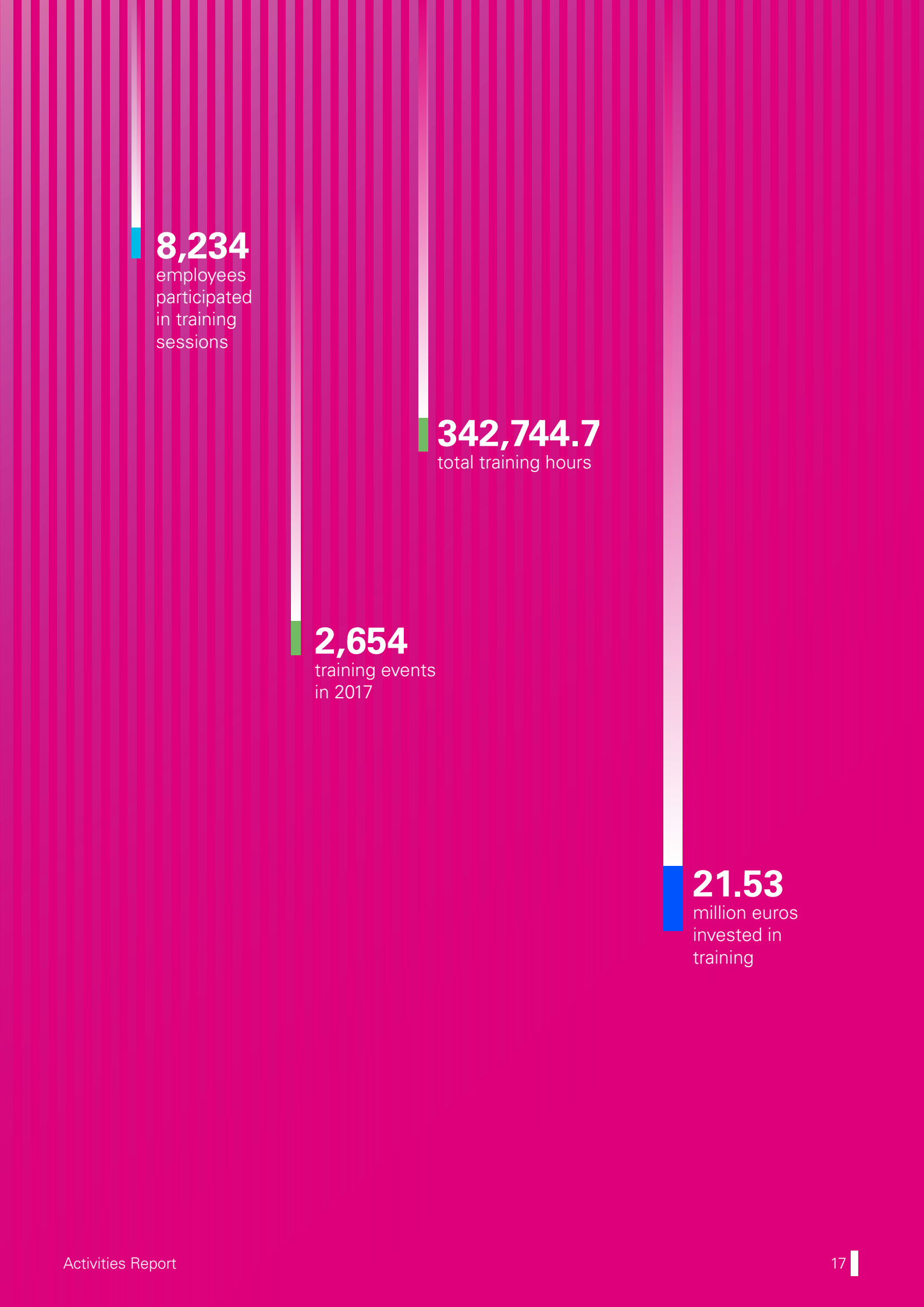


Number of customers
(Thousands)



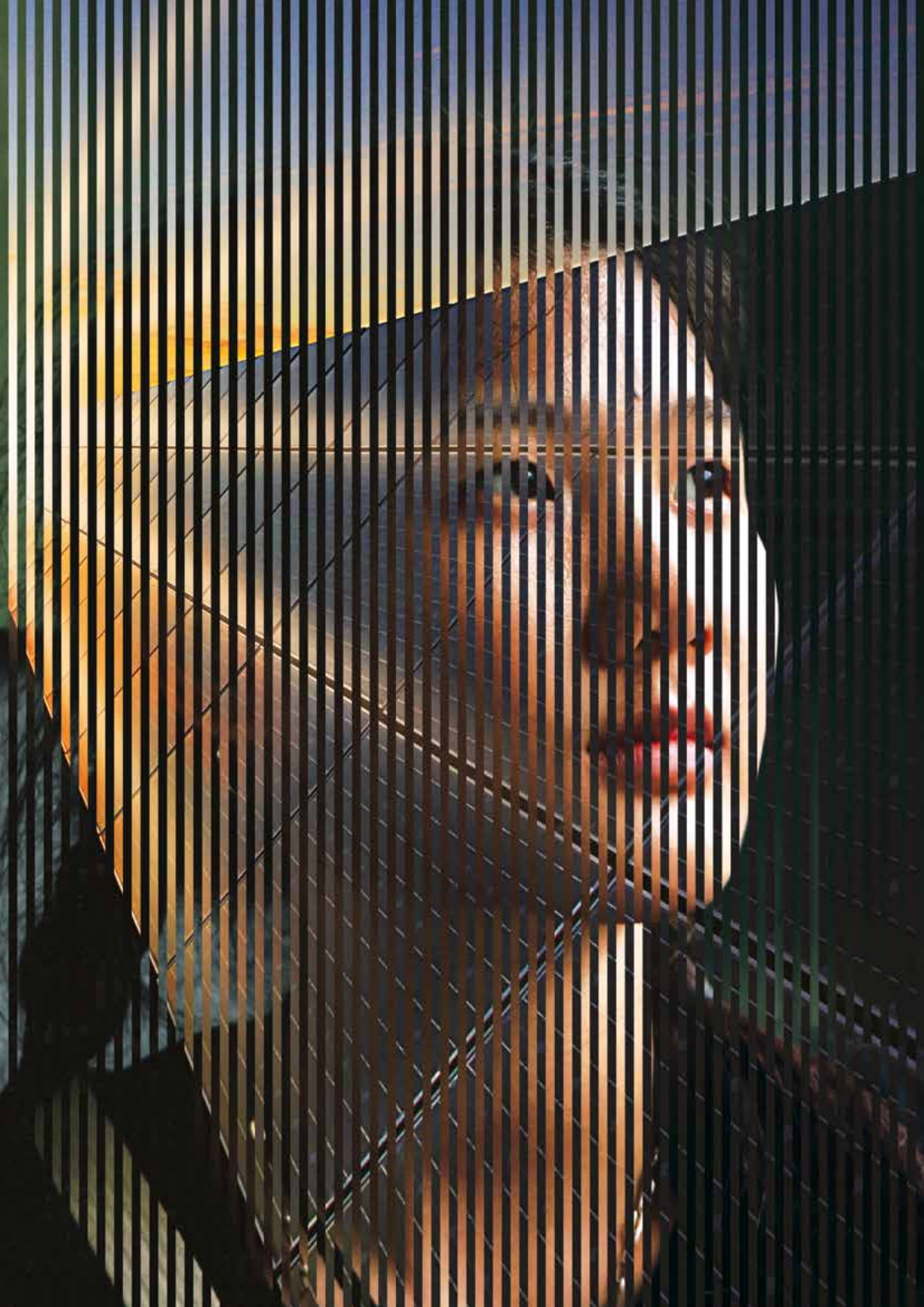
* Corresponds to the power generated by EGPE since the date that it assumed control in 2016.


1,752
million euros paid by directly supported taxes
82
million euros paid by subsidised rate and 29 million euros by Eficiencia Energética
2,439
million euros paid for taxes collected by activity
4,302
million euros total payments to Public Agencies


8,234
employees participated in training sessions
342,744.7
total training hours
2,654
training events in 2017
21.53
million euros invested in training

01

The Enel Group



1. Enel, International Leader

When we talk about Enel we are talking about a multinational group in the energy field with most of the power distribution grid in its country of origin (Italy), which is also an active operator in the production, supply and sale of electricity and gas. It is a company with a presence in Europe, North America, Latin America, Africa and Asia with over 63.5 million end users all over the world, giving it the largest customer base among its European competitors with a net installed capacity of almost 85 GW. Enel Group's gross operating profit EBITDA on 31 December 2017 was 15.7 thousand million euros.

Enel has been listed on the Milan stock exchange since 1999 and its main shareholder is the Italian Ministry of Economy and Finance with 23.585% of the capital. It has the largest number of shareholders among Italian companies (approximately 1 million minority and institutional investors).

Its shareholders include the largest international investment funds, insurance companies, pension funds and ethical funds, together with more than one million small savers, that view positively the adopting of the best international practices with regard to transparency, corporate governance, environmentally-friendly and sustainability policies and zero tolerance to corruption and its Code of Ethics.

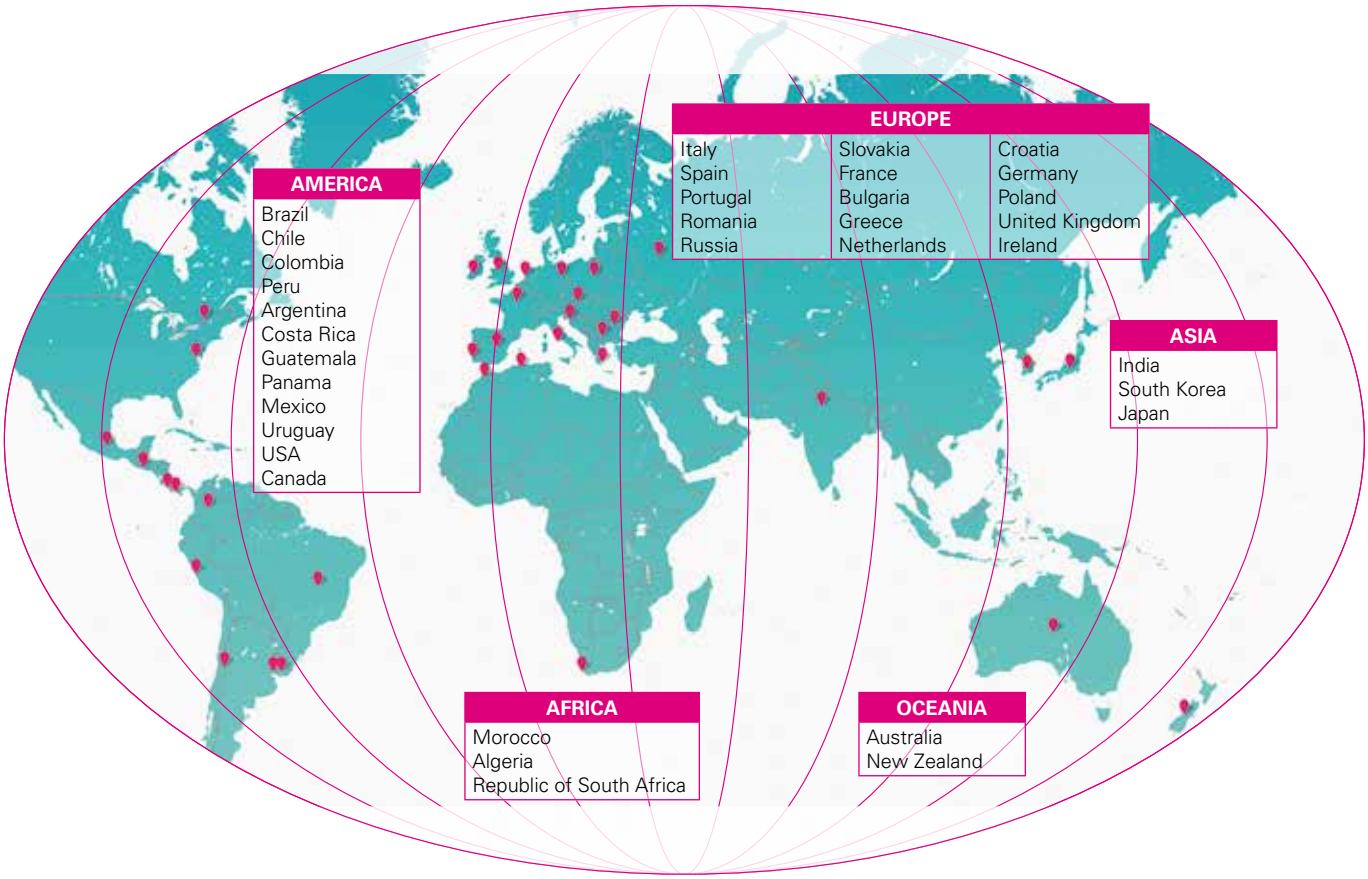
After having consolidating its position as a multinational group, Enel devoted itself to consolidating its acquired assets and more fully integrating its business, considering that the Group has operations in 35 countries across five continents, with a specific focus on Europe and Latin America.

Enel is Italy's first electricity company. It operates in the generation sector with thermal power stations and generation from renewable sources. Furthermore, Enel manages most of the electricity distribution grid of Italy and provides integrated packages of electricity and gas products and services to its more than 30 million Italian customers.

In the Iberian Peninsula, Enel holds 70.101% of ENDESA.

In Europe, Enel is also present in Slovakia, with its holding in the country's largest electricity generator and the second in Central and Eastern Europe. In Romania, in addition to in Greece, the Enel Group has and operates renewable energy generation plants. In Russia, Enel also operates in the generation sector and In France, a strategic market for the Group, Enel performs *trading activities* in the gas and electricity markets.

Enel is a major player in the energy market in Latin America, where it is the leading private company, both in terms of installed capacity and number of customers. In South America it operates in 5 countries, with installed power capacity from thermal and hydroelectric plants and other renewable energy sources. In the generation sector, it owns and operates power plants in Argentina, Brazil, Chile, Colombia and Peru. In the distribution sector, the Group is present in the Brazilian state of Ceará and in five of the main cities in South America: Rio de Janeiro, Bogotá, Buenos Aires, Santiago de Chile



and Lima. In the transmission industry, the Group operates an interconnection power line between Brazil and Argentina. Chile and Brazil, as well as Costa Rica, Guatemala, Panama and Mexico house wind power and hydroelectric power plants.

In North America, the Enel Group has and operates hydroelectric, geothermal, wind, solar and biomass plants.

In Africa, Enel is present in the gas exploration and production sector, developing gas fields in Algeria. Through ENDESA, Enel also operates a thermal power plant in Morocco. In South Africa, the Enel Group operates the photovoltaic plant in Upington, with a capacity of 412 MW.

In Asia, the Group has a presence in Indonesia and India, and has recently increased its presence in South Korea, Taiwan and Japan. In Oceania, its companies in Australia and New Zealand indicate the presence of the Enel Group in that continent.

2. ENDESA in the Enel Group

ENDESA forms part of the Enel Group, which holds 70.101 % of its share capital.

Through ENDESA, the Enel Group has a strong presence in distribution, generation and sale of gas and electricity in Spain and Portugal.

Also, through ENDESA, Enel participates in the gas sector and operates a thermal power plant in Morocco.

2.1. Innovation and quality of service in Enel

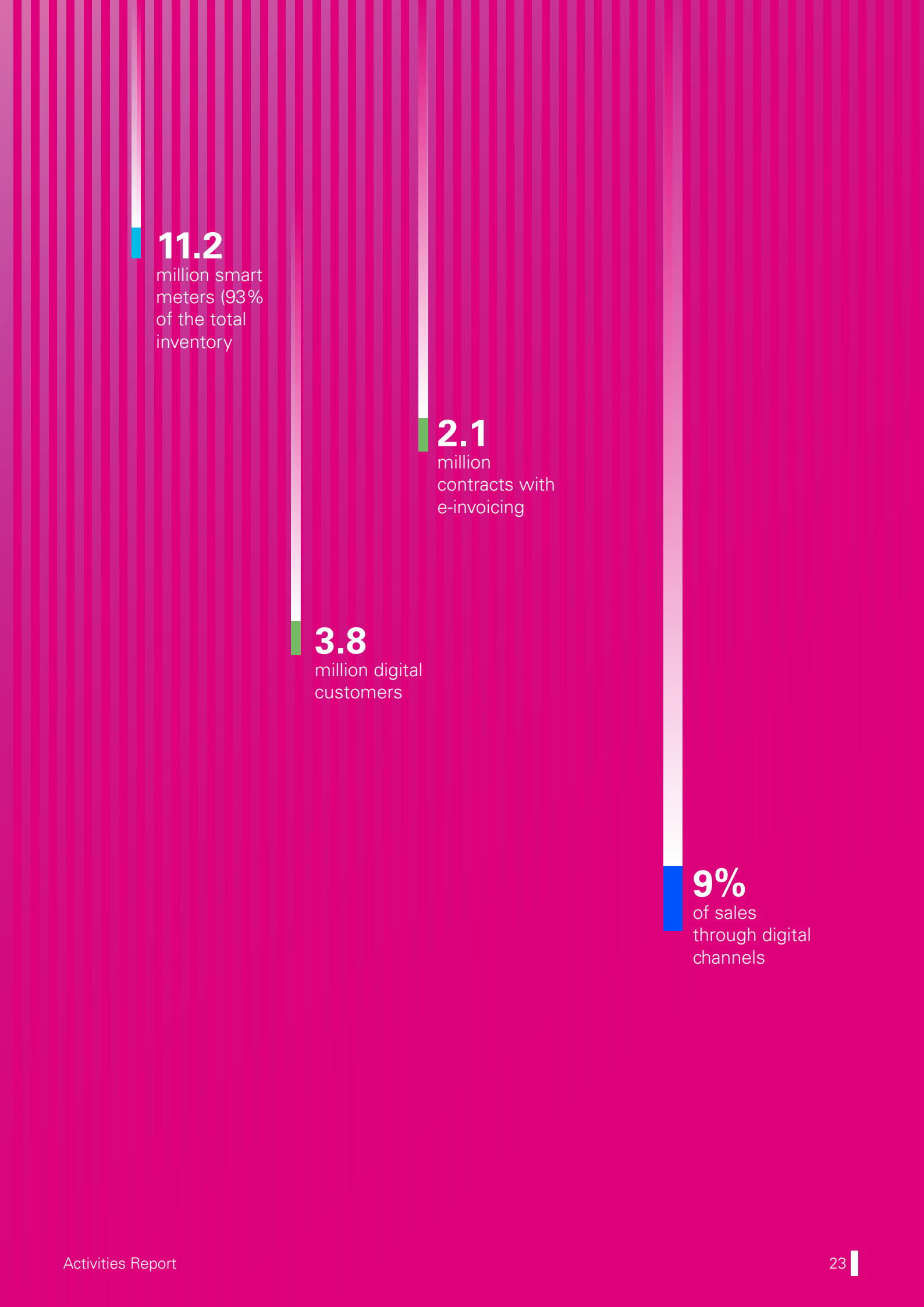
The Enel group promotes technological innovation to generate electricity more efficiently and responsibly and offers customers new solutions (from energy efficiency to *smart grids*) under a common denominator; electrical energy, the cleanest and most efficient energy vector.

Enel was the first energy company in the world to replace traditional electromechanical meters with smart meters, which enable measuring consumption in real time and managing contractual relations remotely. This innovative tool is vital for developing smart grids, smart cities and e-mobility.

Enel takes on a strong commitment to renewable energy sources and to the research and development of new ecological technologies. Enel Green Power (EGP) is the Group Company that generates renewable energy, operating sources based on hydraulic, wind, geothermal, sun and biomass generation plus cogeneration in Europe, America and Africa. Enel Green Power is the renewable energy company with the most highly-diversified smart technology of its competitors worldwide.

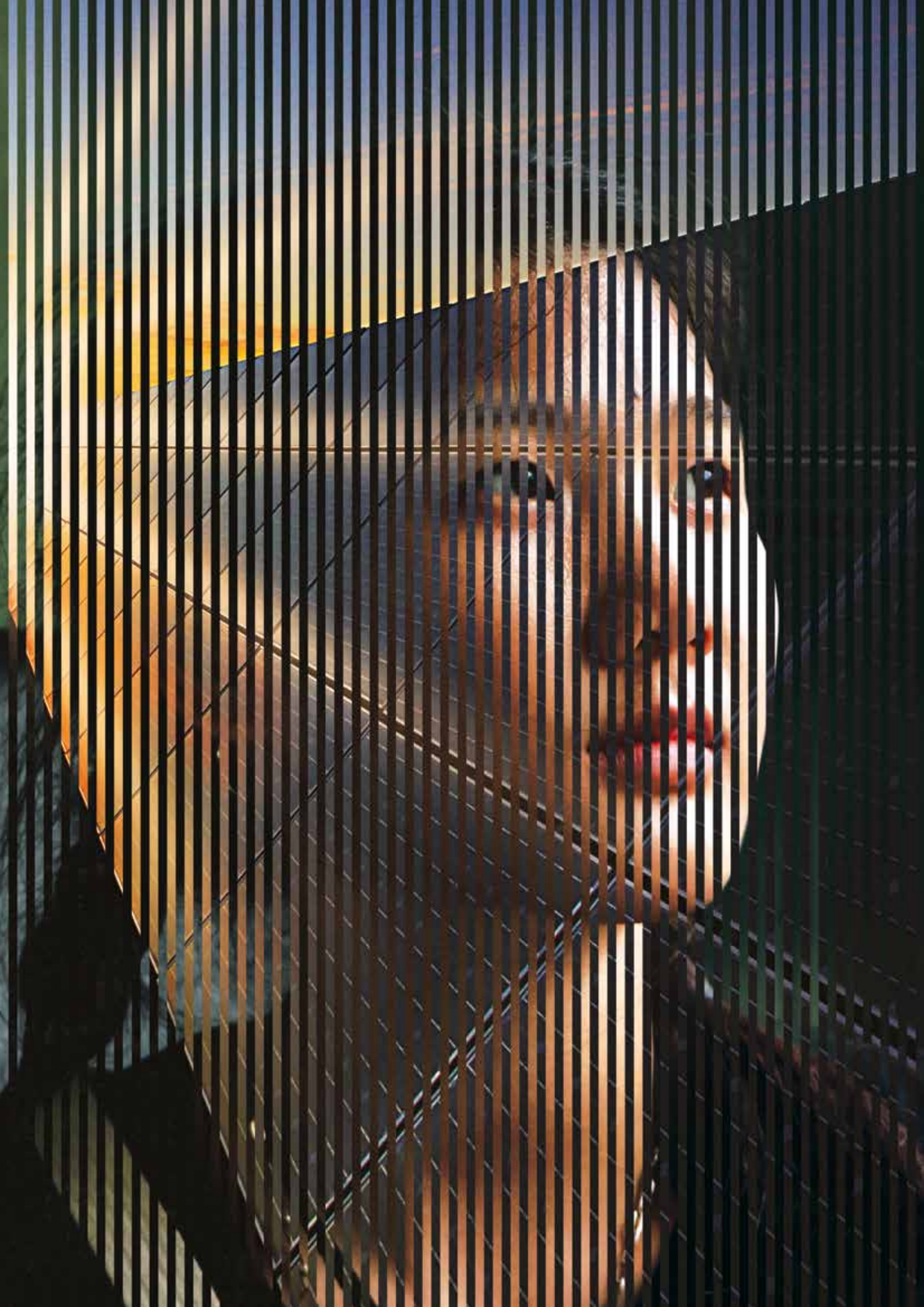
All of this is done providing maximum attention to quality of service and relationship with our liaisons with a clear policy of social responsibility, the creation of value for all our stakeholders both today and in the future.

Our future commitments


11.2
million smart meters (93% of the total inventory
2.1
million contracts with e-invoicing
3.8
million digital customers
9%
of sales through digital channels

02

Economic, energy and regulatory framework



1. Key macroeconomic highlights

1.1. International economic outlook

Although there were a number of turbulent events worldwide during 2017 from natural disasters, geopolitical tensions and political rifts, it can be said that the year ended on a positive note economically, with an overall increase in GDP (Gross Domestic Product) within an ongoing stage of cyclic expansion since the beginning of this decade, in which two separate speeds of growth are still maintained.

Despite that difference of speed, it can be stated that expansion increased in approximately three fourths of the countries in terms of economic growth over the year, with this expansion representing the largest percentage of growth experienced since 2010. Furthermore, signs of economic recovery began to appear in some countries that were dogged by high unemployment rates during the hard years of the crisis, having a positive influence on these rates.

Based on data from the International Monetary Fund (IMF), the recovery reached two thirds of the population worldwide in 2017, while at the same time the economies of emerging and developing markets experienced a reduction of 25%.

The outlook has changed substantially since the beginning of 2016, which saw uncertain growth and turbulent financial markets; a cyclic rebound in growth was observed, affecting activity in Europe, China, Japan and the United States as well as the emerging economies in Asia.

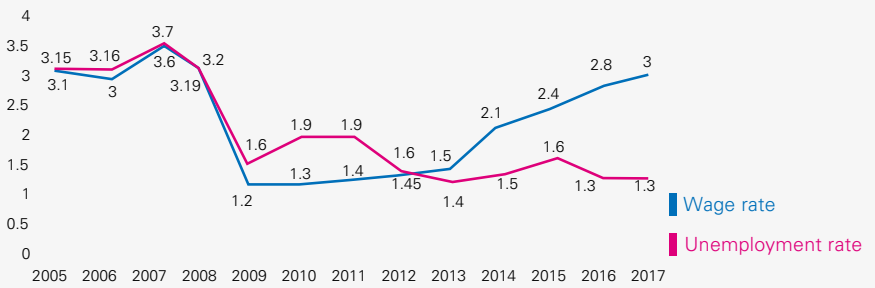
This increase in economic activity worldwide in 2017 is attributable to the improvement in the outlook for developed economies, where acceleration is particularly important due to its generalised nature - something that had not been observed since the beginning of the decade.

Despite this good news, it can be said that the recovery is still unfinished in three aspects, namely:

a) It has not reached all the inhabitants of every country, and although domestic product has increased, salary growth continues to lag behind in both nominal and real terms, after many years during which middle and lower class real income grew much slower than for upper income levels, and even remained stagnant; this situation fostered political discontent and scepticism regarding the benefits of globalisation, putting the recovery at risk.

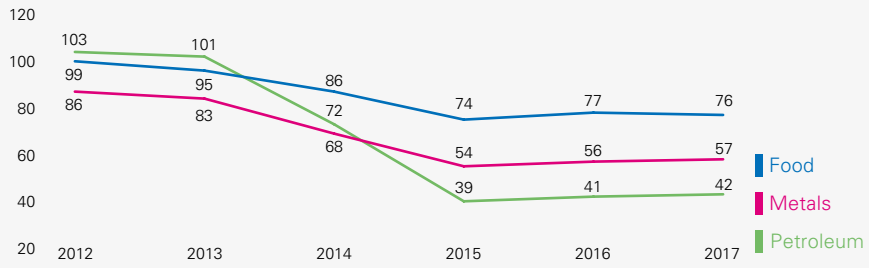
b) The recovery has not extended to all countries, and although most of the world has benefited from this rebound, the outlook is not the same for emerging economies that export raw materials (especially in the Middle East, North Africa, Sub-Saharan Africa and Latin America). In this regard, it should be taken into consideration that raw material prices have been recovering in part as a side effect of growth, thanks to maintaining constant demand.

Variation in the rate of wages and employment (%)
(Weighted average of advanced economies)



Source: International Monetary Fund.

% variation in the price of raw materials (2011=100)
(IMF primary product pricing system)

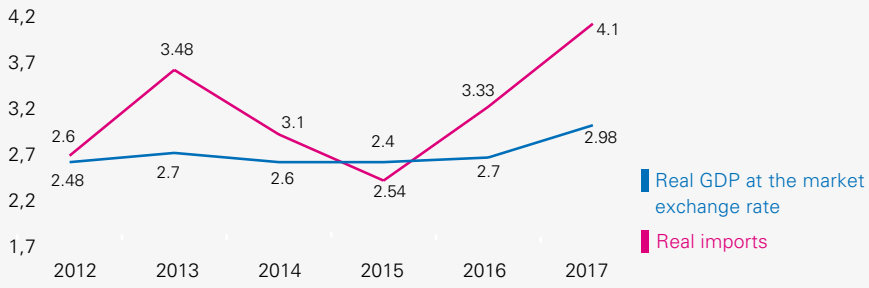


Source: International Monetary Fund.

c) The recovery displays discrepancies in terms of timing, as this rebound conceals trends that are more attenuated as time goes on, as domestic product per capita increased at an average of 2.2% annually between 1996 and 2005, which is in contrast with the latest measurement of 1.4%.

One peculiar feature of 2017 was that business growth worldwide increased more quickly than GDP (business evolution that is sustained in the increase of investment levels), a situation graphically depicted below:

Rates of worldwide commercial evolution in 2017 (%)



Source: International Monetary Fund.

Just as 2015 and 2016 were characterised by weakness in international trade, commercial activity worldwide in 2017 began to expand at a more constant pace, showing average rates of 1.3%, much higher than the 0.3% of the previous two-year period, based primarily on strong growth in commercial activity in the emerging nations in Asia. The dynamism in imports from the United States together with a certain recovery in Latin America contributed positively to the growth in global from from the first months of the year, a dynamism to which the rebound in the Euro Zone and other developed economies later contributed and which was experienced by Asian countries at the end of the year. All of these added together resulted in these growth rates in international trade.

Based on information from Banco de España, growth data on developed economies was robust in all cases, with the United States (growth sustained primarily by the increase in investment) and Japan being foremost, advancing over the long term beyond their potential. The economy in the United Kingdom sped up slightly in the last quarter of the year.

Inflation in developed economies was heavily influenced by evolution of food and energy prices. CPI inflation in the United States was 2.13% year-on-year, and grew by 1.1% in Japan in the last quarter, to end at 0.47% for the year. The rate of inflation continues higher than the target in the United Kingdom, and reached 2.26% year-on-year at the end of the financial year.

Regarding monetary policy decisions, both the Federal Reserve as well as the Bank of England increased their official interest rates in the final quarter. In the case of the Federal Reserve, the increase was in the range of 1.25%-1.5%, reflecting the continued reduction in the economic margin, while the Bank of England raised the official rate to 0.5%.

In tax issues, the most prominent developments were the agreement by both houses of the Congress of the United States to promote tax reform, engineered to achieve a tax stimulus of one percentage point of the GDP, and the tax incentive programme in Japan based on investments in innovation.

As for economic activity by areas or countries, the GDP in the Euro Zone and the European Union (EU) grew 2.5% overall in 2017, and represented figures higher than those predicted by the European Commission (prediction of 2.4%).

For the principal European economies, the gross domestic product for **Germany** grew 2.2% in 2017 (0.3% higher than in 2016, which was 1.9%). In the past financial year, the GDP

was 3,263,350 million euros, making Germany the fourth largest economy worldwide. The GDP for **France** increased 1.8%, a rate of six tenths more than in 2016, which was 1.2%, and the GDP of the **United Kingdom** experienced a 1.8% increase (despite the uncertainty surrounding Brexit), and **Italy** increased 1.5% in the last year.

In any event, all the economies in the EU club recorded various advances in rates of development in 2017 and the data support the positive outlook that the European Commission promoted, highlighting that it amounted to an unprecedented increase since the start of the financial crisis, despite the risks like the uncertainty of the results of the negotiation of Brexit, geopolitical tensions and a reversal toward protectionist policies by countries like the United States.

In the **United States,** the growth figure of 2.3%, although positive, ended up below the expectations that were calculating a stimulus of 2.9% and entailed a slowdown in growth that occurred in the third quarter, when the GDP rose 3.2%. The growth experienced continues marking a clear trend upwards, considering the values for 2015 and 2016, also positive (2% and 1.8% respectively). 2017 was the fourth best year since the economic recovery started in the middle of 2009, according to data from the Wall Street Journal. The engine driving the American stimulus is private consumption, which makes up two thirds of the GDP and grew by 3.8%.

The year-on-year GDP variation in **Japan** was 1.6% and marked eight consecutive quarters of positive growth, the longest period of improvement in current statistics. Typhoons in September and October of 2017 had a negative impact on the Japanese economy, but the economic expansion (slow but steady), improvement in employment (with an unemployment rate of 2.8%) led to an expansion in private consumption, with its impact on the overall economy of the country.

Economic activity overall posted positive results for emerging economies. The economy in **China** to a large extent was the lifeblood of the growth displayed in Asia since the beginning of 2017, a region that also benefited from the increase in Asian interregional trade. These trends in the Chinese economy are based on exports made and fiscal and financial stimuli applied that drove consumption and investment, generating a contagion effect that was successfully transferred to the Asian economies through regional value chains. In annual terms, Chinese GDP increased 6.9% in 2017, a figure reversing the trend toward downward growth that has been the case since 2010. In **India**, the GDP showed signs of recovery, and positive development was also observed in the other Asian countries.

Some of the largest economies in emerging markets, such as Argentina, Brazil and Russia, left their recessions behind. In any event, the increase in per capita figures in almost half the emerging and developing economies - especially the smallest ones - was behind that of the advanced economies, and growth slowed in almost one fourth of the economies. The countries affected are fuel exporters and low income economies that sustained civil conflicts or natural disasters.

In **Latin America**, the annual data were positive, except in Mexico, which was hit by earthquakes in September. Chile and Colombia registered the highest growth rates (1.5% and 0.8% year-on-year respectively), while Brazil and Peru were the least dynamic economies. Inflation managed to be contained in the region, except in Mexico and Colombia, and monetary policies were prominent, with interest rate increases in Mexico and Argentina (7.25% and 27.5% respectively), while Brazil moved in the opposite direction, with cuts dropping back to 7%. A salient aspect of the area is the general depreciation of currencies in relation to the US dollar. Latin America and the Caribbean continue their gradual recovery, but long-term growth is weak.

In **Russia**, growth was lower than expected (year-on-year rate of 1.8%), manifesting a considerable drop in the last quarter despite the measures taken by the central bank, which continued its cycle of cutbacks, in an environment of continuous reduction of inflation. Economic growth continued to be solid in **Eastern Europe,** led by Poland and especially Romania (4.9% and 8.8% rates year-on-year respectively) while at the same time inflation maintained its upward trend in a context of sharp salary increases. The Czech Republic was the first country in the region to raise interest rates as a measure to counteract inflation rates, and Turkey recorded higher growth than expected, based on the economic stimulus measures and the recovery in tourism.

1.2. The Spanish economy

Based on the data of the National Institute of Statistics (INE), the Spanish **gross domestic product** (GDP) increased 3.1% in 2017, with this figure being two tenths less than in 2016. This connected three financial years in a row with figures over 3%, with quarters in which positive growth figures were maintained despite existing political instability.

Investment and domestic consumption can be cited as stimuli of growth in this context. Regarding investments, average growth was 5%, with some specific items like capital assets (meaning total materials and machinery used in industry to produce consumer goods) reaching 6.1%. Regarding domestic consumption, household expenditures increased 2.4% and administrative expenditures 1.6%.

Spanish economic activity grew in all sectors in 2017, with construction (4.9%), industry (3.7%), agriculture, cattle farming, forestry and fishing (3.7%) and services (2.6%) being most prominent. In addition, exports reached a record level of 5%, while imports increased by 4.7%.

According to data from the National Institute of Statistics, the **consumer price index** (CPI) for the year 2017 was 1.1%, its lowest level for the year, primarily due to lower cost increases for fuel and electricity. Although the cost of petroleum increased in the last few weeks of the year (hovering at 70 dollars/barrel), the improvement in the exchange rate of the euro against the US dollar significantly compensated for this increase, lowering the economic impact considerably.

The harmonised inflation rate also dropped six tenths to 1.2%, lower than the euro zone average of 1.4%. This resulted in the spread becoming favourable again for the Spanish economy after twelve months of inflation higher than the European average. The underlying rate remained stable at 0.8%, while the core inflation excluding food and energy products dropped by one tenth of one percent to 0.7%. The results were lower than expected due to the unusual drop below the estimate for energy products.

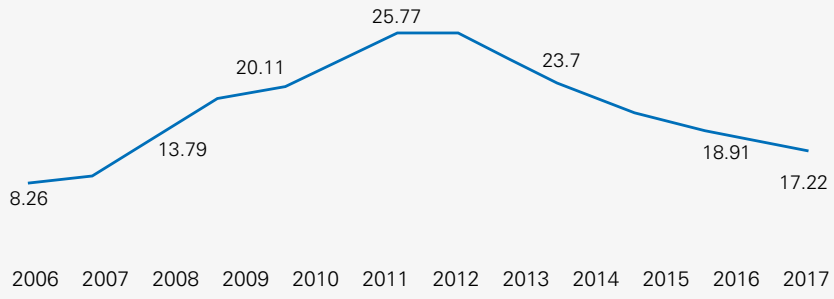
Values for processed foods and non-energy industrial goods (NEIG) remained stable among the components of the inflation index, while rates for services went down, particularly for communications and medical services. As for the most volatile components of the index, inflation for unprocessed foods went down, as did energy products. Overall, we can state that the reversal in the general rate of inflation in December followed the decline in the rates for the most volatile components: unprocessed foods and energy products.

Despite closing at levels far below the ones indicated at the beginning of the year - 3% in January and February - purchasing power of pensioners and government employees made up the group most adversely affected.

Employment increased at a pace of 2.9% with some 506,000 new full-time employees, and as for income, compensation of salaried employees increased an average of 3.3% (the Minimum Wage, which increased by 4% this year, to 735.9 euros per month). The Office of the Secretary of State for the Economy confirmed that the year-on-year growth is evidence of the strength of the Spanish economy, despite the political instability occurring in the final quarter.

The total number of unemployed in Spain reached 3,412,781 at the closed of 2017, which represents a drop of 290,193 unemployed for the entire year (-7.84%) and which is the lowest level in the last eight years for December (it should be recalled that unemployment had increased an average of 40,922 people in the month of December

Evolution of the unemployment rate (%)



Source: Ministry of Employment and Social Security.

alone, despite hiring resulting during the Christmas season).

Broken down by age, unemployment among those under 25 years of age dropped by 14,128 in 2017, representing a drop of 9.37%, above average (note that most of this drop was in December for sales jobs). Unemployment among men was 1,459,726, dropping by 182,576 persons, while among women it was 1,953,055 after dropping by 107,617.

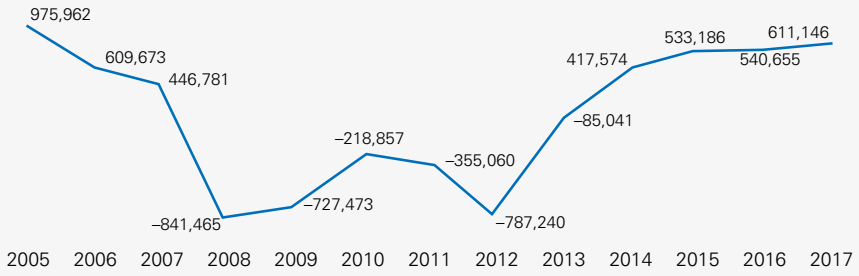
By sectors of the economy, the annual decrease in unemployment was concentrated in the service sector (153,252 people), followed by construction (61,742), industry (39.008), unskilled labour (21,927) and agriculture (14,264).

By autonomous community, the largest decreases in absolute terms were in Andalusia (57,713 people), Catalonia (35,627) and Madrid (35,401), although in relative terms the largest annual drops were in the autonomous city of Melilla (14.94%), Cantabria (12.52%), Aragon (11.54%) Navarre (10.77%) and Galicia (10.15%).

The number of contracts initialled in 2017 amounted to 21,501,303, out of which nine out of ten (19.57 million) were temporary and only 1.9 million were permanent, which nevertheless represented the best figures for the last decade based on employment data.

As a result of all this, Social Security closed 2017 with an average increase of 611,146 participants (+3.42%), the highest figure since 2005, the year affected by the extraordinary legalisation of foreign workers, after recording 42,444 more contributors (+0.23%) in December.

Members of Social Security (annual variation in the number of members)



Source: Ministry of Employment and Social Security.

2. Evolution of interest rates and exchange rates

During 2017, interest rates on sovereign debt in Europe increased above the minimum levels recorded in 2016. Yield on the 10-year Spanish bond increased from 1.38% at the beginning of the year to 1.56% at the end of 2017, as did yield on the German bond for the same term, which rose 22 base points to 0.42%. Consequently, the country risk for Spain (the spread compared to the German 10-year bond) was 114 base points at the close of the 2017 financial year, levels similar to those at the close of the financial year 2016. In other peripheral nations in the euro zone like Italy, the risk premium was 158 base points, similar to the prior year, while the risk premium for Portugal dropped to 149 base points from 354 base points at the close of 2016.

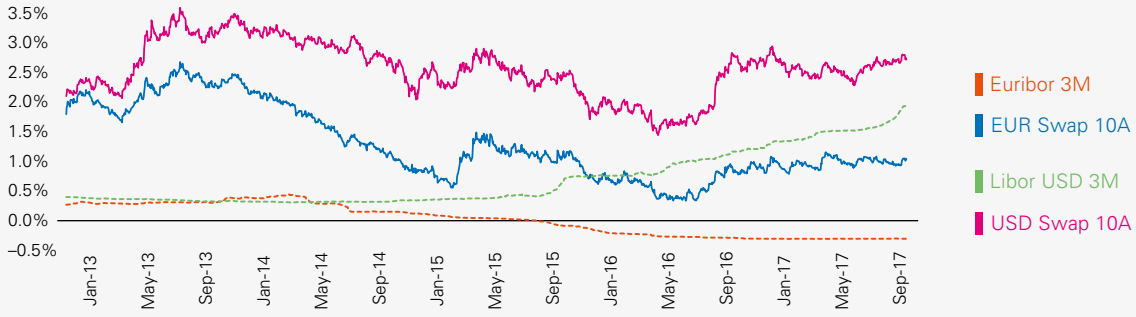
In 2017, the European Central Bank (ECB) maintained interest rates for the euro zone at their historic minimum of 0% and opted for an alternative method to reduce quantitative easing (QE) by cutting its monthly volume of asset sales to 30,000 million euros while expanding the programme until at least September 2018.

During 2017, the long-term interest rate of the euro (10-year swap) decreased, going from 0.66% at the start of the year to 0.89% at year-end. For its part, the short-term interest rate (3-month Euribor) remained steady at -0.33%.

The long-term interest rate for the US dollar (USD) increased slightly during 2017 from 2.34% to 2.40%, while the 3-month interest rate on the US dollar (USD) rose in 2017 from 1.00% to 1.69%.

The euro appreciated by 14% against the US dollar (USD) during 2017, with the euro/US dollar (USD) rate of exchange moving from 1.05 at the beginning of the year to 1.20 at the close of 2017, thanks to the disappearance of the upward effects of Trump's tax reform on the US dollar (USD), the decrease in political risks in the Euro Zone and the evolution of the convergence between the cycles of the Euro Zone and the United States.

Evolution of the interest rates of the euro and dollar in recent years



3. International fuel and freight market

3.1. Oil and oil derivatives

Prices for Dated Brent crude showed heightened volatility; they started the year at $56/bbl, falling in June to $46/bbl, at which point they started moving upward to $67/bbl. The year was noted for the extension of the OPEC-Russia agreement to reduce production, which has been achieving its objective to reduce crude stocks worldwide. The increase in prices was halted by competition from American shale oil, which increased its number of wells from 529 to 747 over the course of the year, reaching a daily crude production of 10 million bbl/day in the USA.

3.2. Natural gas

Crude prices continued to rise during 2017, especially in the second quarter, increasing about $11/bbl throughout the year. This was the primary reason why the price of gas in Europe (TTF) has been on average 23.5% higher than in 2016. The price increase has been even higher in the international market for liquefied natural gas (LNG), with an increase of around 43% for LNG delivered in Spain compared to 2016. LNG prices were particularly high during the winter months, basically due to a relatively cold 2016-2017 winter at the principal LNG markets and the decision of the Chinese government to replace coal with gas heating in the 2017-2018 winter, which caused the demand for LNG in the country to surge.

In Spain, the demand for gas ended 2017 with a growth of 9.1% compared to the previous year, due to a 5.1% increase in the conventional demand and an increase of 26.7% in electricity generation demand, after a slight drop (-2.6%) in the prior year. The percentage of consumption allocated to electricity generation amounted to 21.6% in 2017, after reaching 18.6% in 2016.

3.3. Coal

Coal prices have been increasing since the second quarter of 2017 due mainly to strong industrial development in China, which has been one of the main drivers in the growth of electric demand this year, increasing year-on-year by 7%, while hydroelectric generation dropped by 3.5%. This has meant that thermal generation has reinforced the increase of consumption of coal.

Chinese coal imports in 2017 reached approximately 170 million tons, representing 6% of coal demand and approximately 20% of the worldwide trade of this fuel. A series of events has occurred that have contributed to the increase of coal prices in the Pacific region:

1. Nuclear tensions in South Korea and Japan.
2. Interruptions in coal supply in Australia with a series of strikes in the major coal mines.
3. Indonesia has sustained a longer monsoon season than expected, which has affected coal production.

Atlantic market prices (API2) have significantly increased, partly due to the fact that Atlantic coal has been diverted towards Asian markets.

European imports increased slightly in 2017 compared to the prior year, due mainly to the greater demand in Spain resulting from a drop in hydroelectric generation and a major increase in Turkey.

Reliable projections indicate that China will continue to be a key element in the world market for thermal coal.

It is expected that the policy to reduce imports will remain in place, limited by governmental intervention. However, it must always be taken in to account

that small changes in the domestic market may cause a major impact on the international market.

In the case of India, it is expected that coal demand will continue to increase and will largely depend on imports, unless significant investment is made in domestic production.

In general, it is expected that growth will continue in Southeast Asia, as the rapid expansion of coal capacity in Taiwan, Malaysia, the Philippines and Vietnam will drive demand.

Coal demand continues to drop in Europe due to increasing renewable production and the shift from coal to gas.

The only positive sign is found in the Mediterranean markets, with new coal-fired plant projects in Turkey, Morocco and Egypt.

In the Americas, several coal projects in Brazil, Chile and Mexico have been cancelled, and therefore, it is likely that coal imports will at most remain stable, as renewable energies and gas take priority.

It is expected that prices will remain stable or weaken slightly over the short term. But a great deal depends on the policies of the governments in China, India and Indonesia.

The downside risk is the possibility that the Chinese government will decide to cut imports drastically and that gas prices will drop further.

The upside risk foresees a shortage of coal to maintain production growth in India and the strengthening of the determination of the Indonesian government to limit exports to keep reserves for domestic demand.

The Pacific market will dominate the thermal coal market worldwide for the foreseeable future.

A total of 10 million tons of coal and petroleum coke were imported for Spanish thermal power plants in 2017, 9.8% more than the previous year (9.10 Mt). Almost 40% is from Indonesia, 22% of Russian origin, another 19% from Colombia and the rest would be divided between the USA, South Africa and Chile.

3.4. Freight market

During 2017, ENDESA contracted shipping of 7.8 million tons of imported coal, 54% from Indonesia, 24% from Colombia, 12% from the Baltic States and 9% from the USA. 78% of the coal imported by ENDESA was transported in Capesize vessels (up to 180,000 tons) and the rest in Panamax type ships (up to 82,000 tons).

The freight market recovered in 2017 basically because the increase of imports of dry cargo grew more than total freight, by 4% compared to 3%. After reaching 30-year historic minimums in 2016, the Freight Reference Index for the route from Indonesia (Capesize Baltic C4) increased by 71%, moving from quoting an average of US$4.25/ton in 2016 to US$7.26/ton. 72% of the increase can be explained by the higher demand for vessels, and the remaining 28% is due to the increase in fuel prices, which in 2017 went up 43% compared with the average in 2016.

The increase in demand for Capesize vessels is basically due to the expansion in global imports of iron ore by 4.4% and to a lesser extent by the higher import of coal worldwide by 4%. The main player involved is Asia, as is becoming the norm. Regarding the growth in coal imports, China accounts for 30% of the increase and another 30% is from emerging nations in Southeast Asia: Vietnam, Malaysia, the Philippines, Cambodia and Thailand. As for iron ore, China increased its imports by 5%, accounting for 68% of the total of global imports.

4. The regulatory framework in 2017

4.1. Main regulatory developments in Spain

Consolidation of the balance of the electrical rate continued during 2017, as evidenced by the fact that the final settlement of 2016, approved in November 2017, delivers a surplus of 421 million euros, which is added to the surplus of 550 and 469 million euros from 2014 and 2015 respectively.

On the other hand, the development and implementation process for the new subsidised rate mechanism was completed during this financial year, after the approval in 2016 of Royal Decree-Law 7/2016 of 23 December regulating the financing mechanism for the subsidised rate cost and other measures for the protection of vulnerable energy consumers.

Finally, an initiative has been launched in 2017 that will lead to the approval of a future Law on Climate Change and Energy Transition, and Energy and Climate Plan, intended to move forward into a low carbon economy and a gradually less polluting production model, in line with the commitments made by our country in the Paris Accord. It is the declared interest of the Government that this Law be the result of collaboration and consensus, bringing together the largest possible number of positions of consent and obtaining the participation of all sectors and agents involved. With these objectives, during 2017 the Government:

- commissioned an inter-ministerial working group involving the major ministries,
- approved the creation of a Commission of Experts for the energy transition composed of recognised experts on the matter, for the purpose of presenting a report on different energy transition scenarios to analyse possible energy policy alternatives, considering their environmental and economic impact and enabling compliance with established objectives in the most efficient manner, and
- initiated a public consultation for the preparation of the Draft Law on Climate Change and Energy Transition to elicit the opinion and proposals of the different agents.

4.2. Regulated activities deficit

The Spanish Electrical Sector Act 24/2013, establishes the fundamental principle of the tariff balance of the electricity system. In 2012, the Government started a process to reform the electricity legislation which had the main objective of guaranteeing the economic and financial sustainability of the electricity system.

The 2016 definitive settlement resulted in a surplus of 421 million euros, which has been added to the surplus of 550 million and 469 million euros from the final settlements for the financial years 2014 and 2015 respectively. The Ministry of Energy, Tourism and Digital Agenda also considers that the electricity system will be balanced in the coming financial years.

4.3. Generation

- Renewables, cogeneration and waste Ministerial Order ETU/130/2017 was published on 22 February 2017, which updates the compensation parameters of generating facilities based on sources of renewable energy, cogeneration and waste. It is the first review for a regulatory semi-cycle performed since the commissioning of the new regulatory framework for renewables.

  Moreover, in 2017 the Ministry of Energy, Tourism and Digital Agenda commissioned a series of auctions for the assignment of the specific compensation system for new renewable production facilities. And so an auction was held on 17 May awarding all the power, for a total of 3,000 MW (2,980 MW wind, 1 MW photovoltaic

and 19 MW other technologies) with the maximum discount permitted for the initial investment value determined for the indicated provisions.

Given that the power that was presented at the auction exceeded by far the power auctioned, on 26 July a new auction was paid with the award of 5,037 MW (3,909 MW photovoltaic and 1,128 MW wind) at the maximum discount.

> Draft Royal Decree for closing generation facilities.

In November, the Ministry of Energy, Tourism and Digital Agenda began the drafting of a Royal Decree regulating the closing of electric generation facilities. This Draft expands the criteria under which a request to close these facilities may be denied so that, together with the security of supply included in the current regulations, the possible denial of a request to close is considered based on its impact on electricity prices or compliance with objectives for energy and climate planning.

If a request is denied, the owner of the facility may make use of an auction mechanism that, should it fail, may create the possibility of a compensation scheme for a third party to continue the activity.

The National Markets and Compensation Commission (CNMC) issued its report on the Draft, stating that the new criteria for denial are not found in Law 24/2013 or in European legislation under consideration, and that in any case should be defined precisely to avoid ambiguity. At the same time, it recommends prior notification of the scheme to the European Commission for the purposes of community legislation regarding state assistance.

4.4. Subsidised rate

The ruling of 24 October 2016 of the Supreme Court declared the Subsidized Rate financing system initially provided by Law 24/2013 of 26 December inapplicable, since it was incompatible with Directive 2009/72/EC of the European Parliament and Council of 13 July 2009, concerning common rules for the domestic market in electricity, and acknowledged the right of companies to recover the amounts paid. In this regard, on 24 December 2016, Royal Decree-Law 7/2016 of 23 December was published to regulate the financing of the costs of the Subsidised Rate and other measures to protect vulnerable electric energy consumers.

By virtue of this Royal Decree-Law, the subsidised rate will cover the difference between the value of the voluntary price for small consumers ('VPSC') and a base value, which may be different according to the categories of vulnerable consumers established, which will be called last resort tariff and will be applied by the corresponding reference reseller in the invoices of consumers who are subscribed to it.

The subsidised rate shall be financed by the parent companies of the Groups with resale activity, or by the companies that directly engage in this activity. The financing percentage shall be determined annually by the CNMC and shall be proportional to the number of customers. Transitorily, the Royal Decree-Law establishes provisional financing percentages, fixing a percentage of 37.7% for ENDESA.

Likewise, and with the maximum limit established by Order of the Ministry of Energy, Tourism and Digital Agenda, after agreement of the Delegate Commission of the Government for Economic Affairs, said companies or Groups of companies shall assume the amount that must be provided to co-finance with the competent Public Administrations the cost of the supply of consumers that have the status of severely vulnerable in accordance with the regulatory established criteria. It shall be understood that a consumer will have the condition of severely vulnerable if he/she pays last resort tariffs and, also is attended to by the competent social services as, because of his/her income, he/she is at risk of social exclusion, being restricted to individuals in his/her usual residence and having a duly certified document issued by the social services. In these cases, the supply will be considered essential and cannot therefore be suspended.

Royal Decree 897/2017 of 6 October was published on 7 October 2017 regulating the vulnerable consumer, the subsidised rate and other protective measures for domestic consumers of electric energy, as well as Order ETU/943/2017 of 6 October, by which the above Royal Decree is developed.

As a result of these two provisions, the necessary prerequisites to be considered a beneficiary of the subsidised rate were established as well as the procedure for its processing, aspects related to the supply. such as the shut-off date for non-payment or the procedure for requesting and granting the subsidised rate through a digital platform managed by the Ministry.

In January of 2018 the CNMC published its proposed distribution percentage for financing the subsidized rate for 2018, with the percentage proposed for ENDESA being 37.14%.

4.5. Interruptibility

The interruptibility service is an efficient demand management service that can be used by consumers that may stop their activity at times of saturation in the electricity system, obtaining economic consideration for the service provided. This demand management tool allows flexibilising system operation and giving fast, efficient responses in the event of possible emergency situations, minimising the impact on system security.

Order IET/2013/2013, of 31 October, and its subsequent amendments, establishes that the allocation of the interruptibility service will be performed through an auction procedure managed by the system operator ensuring the effective provision of this service and that it is performed at the lowest cost for the electricity system.

Order ETU/1133/2017 was published on 23 November 2017, which modifies the interruptibility scheme, introducing among other things, several service delivery periods throughout the year, reduction of prior notice for its execution and greater flexibility to promote its application by economic criteria.

Auctions were held during the week of 18 to 22 December 2017 to assign the interruptible power for the delivery period between 1 January and 31 May 2018, awarding total power of 2600 MW.

This Order also modifies the compensation for the availability service, extending this service during the first half of 2018 and eliminating its collection in that period for hydraulic facilities.

4.6. Distribution

On 30 December 2013, Spanish Royal Decree 1048/2013, of 27 December, was published, that sets out the methods for calculating the electricity distribution activity remuneration, containing elements that will guide the future remuneration for this activity, with the main following aspects.

Royal Decree 1073/2015, of 27 November was also published, modifying certain provisions in the Royal Decrees on the remuneration of electricity grids (Royal Decree 1047/2013, of 27 December relative to compensation for transmission, and Royal Decree 1048/2013, of 27 December for distribution). Among other aspects, the Royal Decree eliminates the annual update of unitary values depending on the CPI in accordance with Act 2/2015, of 30 March, of de-indexation of the economy.

Order IET/2660/2015, was subsequently published, establishing the unit values of investment, operation, maintenance and compensation of other regulated tasks and defining the concepts of vegetative growth, relevant increase in power and the compensations for use and reservation of premises, with the first regulatory period therefore starting therefore, on 1 January 2016. This initial regulatory period will end on 31 December 2019, according to the Tenth Additional Provision of Law 24/2013.

On 17 June 2016, Ministerial Order IET/980/2016, of 10 June was published in the Official State Gazette, which establishes compensation on distribution activity for 2016 in accordance with the methodology established in Royal Decree 1048/2013.

On 15 September 2017 the Announcement of the General Sub-directorate of Resources, Claims and Relations with the Administration of Justice was published in the Official State Gazette (BOE), announcing the Proceedings of the Hearing of the Order of the Ministry of Energy, Tourism and Digital Agenda initiating the declaration of detriment to the public interest of Order IET/980/2016.

On 25 October 2017, the Supreme Court passed sentence partly in favour of the contentious administrative appeal filed by ENDESA against Order IET/2660/2015 of 11 December regarding the methodology for calculating the percentage of third party financing (λ). The ministerial order is currently in the processing phase to establish the payment of distribution for 2017.

While no definite figures have been approved, the payment to be made for 2017 shall temporarily be that indicated in the Third Transitory Provision of Order ETU/1976/2016 of 23 December, which establishes electricity access use charges for 2017.

4.7. Electricity rate

> 2017 electricity tariff

On 29 December 2016, Order ETU/1976/2016, of 23 December was published, establishing the electricity access use charges for 2017. This Order maintains the access tolls unchanged.

> 2018 electricity tariff

On 27 December 2017, Order ETU/1282/2017, of 22 December was published, establishing the electricity access tolls for 2018. This Order maintains the access tolls unchanged.

4.8. Gas tariff

> 2017 gas tariff

Order ETU/1977/2016, of 23 December, has maintained, in general, the access tolls compared to 2016 also having updated the Last Resort Tariffs (TUR) with an average reduction of 9% due to decrease in the costs of raw materials.

> 2018 gas tariff

Order ETU/1283/2017, of 22 December, has maintained the access tolls compared to 2017, also having updated the Last Resort Tariffs (TUR) for 2018 with an increase of 4.7% for TUR 1 and 6.4% for TUR 2 due to the increase in the costs of raw materials.

4.9. Other regulatory changes

In the area of Energy Efficiency, and due to Act 18/2014, of 15 of October, on urgent measures for growth, competitiveness and efficiency, which establishes a system of obligations for gas and electricity resellers, for wholesale operators of gas products and for liquefied petroleum gas wholesale operators, Order ETU/258/2017, of 24 March, establishes for ENDESA a contribution to the National Energy Efficiency Fund of 29.3 million euros corresponding to the 2017 obligations, with the proposal for contribution corresponding to 2018 of 28.5 million euros for ENDESA, currently in progress. Moreover, in July a public consultation was initiated on the fundamental aspects that a new Royal Decree for Access and Connection should cover for implementation of Law 24/2013.

4.10. Regulatory developments in Europe

In Europe, throughout the year 2017 intense regulatory activity continued in relation to the trading of *commodities* and derivative financial products, continuing with the lower range legislative developments of the various legislation passed in previous years, primarily the Financial Instrument Market Directive (MIFID) and its regulations (MIFIR):

Progress has continued to be made in the project to integrate the European electricity and gas markets. Specifically, during 2017 Parliament and the European Council have moved forward in negotiating the new legislative package, 'Smart and clean energy for all Europeans', a set of regulatory proposals and measures of the European Commission that have the aim of modernising the economy and relaunching investments in the sectors related to clean energy.

The legislative proposals include energy efficiency, renewable energies, electricity market design, supply security and the rules of governance relating to compliance with the 2030 objectives. The package has 3 main objectives: (i) placing energy efficiency in the forefront; (ii) achieving world leadership in renewable energies; (iii) providing a fair treatment to consumers. The proposal shall, among many other things, involve the revision of the current electricity, renewables and energy efficiency directives.

The proposals are in the processing phase with the Parliament and the Council, and it is estimated that an agreement will be reached by the end of 2018, which will go into force in 2019.

In parallel, on 8 November the European Commission published the so-called 'Clean Mobility Package'. Among other items, it proposes new CO_2 emission targets for passenger vehicles; specifically, the emission average must be 30% lower in 2030 than in 2021, with intermediate objectives in 2025.

Finally, the (EU) Regulation 2017/1485 of the Commission dated 2 August 2017 was published on 25 August 2017, establishing a guideline for the management of the electricity

transmission grid for the purpose of maintaining the security of the operation, quality of frequency and efficient use of the system and related resources. It defines: a) the requirements and principles for security of the operation; b) the rules and responsibilities for the coordination and exchange of data on the GRTs (Transmission Grid Managers), between the GRTs and the GRDs (Distribution Grid Managers) and between the GRTs, the GRDs and the USRs (Restoration Service Users) in the programming of the operation and close to real time; c) the rules for the training and certification of grid management personnel; d) requirements for the coordination of downtimes; e) requirements for programming between GRT control zones, and f) the rules for the establishment of a framework for the Union for frequency-power control and for reserves.

Related to the above, on 28 November 2017 the (EU) Regulation 2017/2196 of the Commission dated 24 November 2017 was published establishing a grid code for emergencies and restoration of service. This regulation governs the procedures to protect the security of the operation, prevents the expansion or deterioration of an incident so as to avoid extensive disruption and power outage and permits the rapid and efficient restoration of the electricity system after a state of emergency or blackout. It establishes requirements for: a) management by the GRTs of states of emergency, blackout and restoration; b) coordination and operation of the system throughout the EU in states of emergency, blackout and restoration; c) simulations and tests to guarantee reliable, efficient and rapid restoration of interconnected transport grids to normal status after a state of emergency or blackout; d) the tools and equipment required to guarantee reliable, efficient and rapid restoration of interconnected transport grids to normal status after a state of emergency or blackout.

Regarding the gas sector, (EU) Regulation 2017/459 of the Commission dated 16 March 2017 establishing a network code for the mechanisms for assigning capacity in the gas transport networks and repealing (EU) Regulation 984/2013, (EU) Regulation 2017/460 of the Commission, of 16 March 2017 establishing a network code for harmonisation of the rate structures for gas transmission, and EU Regulation 2017/1938 of the European Parliament and Council of 25 October 2017 regarding measures to guarantee the security of gas supply and repealing (EU) Regulation 994/2010 were published during 2017.

General Shareholders' Meeting of April 2017

5. Stock market performance and investor relations

5.1. ENDESA in the stock market

The 2017 financial year was very favourable for the major western markets thanks to improvements in macroeconomic conditions, growth of corporate profits and greater investment in business. Several indices reached maximum historic levels, and technology, energy and airline companies were foremost in these gains.

In this favourable economic context, the Spanish IBEX35 index closed the year 2017 up 7.4%, its first upturn in three years. Despite these good results, the Spanish stock exchange experienced the most modest increase among European markets, fundamentally due to misgivings among investors in the second half of the year over the political instability in Catalonia.

The Italian stock exchanges stood out among the European stock exchanges, with its FTSE MIB index rising 13.6%, bolstered by the improvement in its financial sector. It was followed by the German stock exchange, where the DAX rose 12.5% and the French stock exchange, with the CAC 40 indicator showing an increase of 9.3%. More in line with the Spanish stock exchange, the British FTSE 100 index rose 7.6%, while the Pan-European Eurostoxx 50 rose slightly less, at 6.5%. The US indices, at historic maximums, closed the year with increases between 20% and 30%.

In Spain, the IBEX-35 began 2017 on an upward trend, reaching its annual peak of 11,135 points in May, amounting to an increase greater than 19%. From that point, the index began a slow decline, pressured by the ongoing events in Catalan politics. In fact, the holding of the independence referendum in Catalonia on 1 October led the IBEX-35 to drop below the resistance level of 10,000 points that it had maintained unchanged since the month of March.

The last two months were marked by the events occurring in the wake of Catalonia's unilateral declaration of independence and the application of article 155 of the Constitution, a situation that caused considerable volatility in the IBEX-35. Despite all this, the index managed to recover its positions in the final stretch, and closed 2017 at 10,044 points, an annual increase of 7.4%. By sector, the best performance was displayed by companies related to infrastructure, tourism and raw materials, while the worst were two engineering companies that were affected by several announcements on cutting back benefit estimates during the financial year.

The general evolution of the European electric sector reflected in the Dow Jones Eurostoxx Utilities industry index was quite positive, supported by the best financial conditions of the companies and by expectations of consolidation in the sector.

The Eurostoxx Utilities ended the year up 15.7%, positively affected by the fine performance of German companies, which recovered positions after the corporate restructuring that they experienced in the previous fiscal year. French and Italian electric companies also displayed overall quite positive performance, but the Iberian companies lagged behind. Within this group, ENDESA came in last, declining 11.3% in 2017.

Along with the IBEX-35, ENDESA stock started the year in a positive frame. It reached a historic high on 8 May, closing the session at €22.76 per share. However, the first quarter results that were presented on the same day started a downward trend for the shares once the difficult market conditions were confirmed that would affect ENDESA business throughout 2017, a year marked by a stubborn drought, scarcity of wind resources and rising fuel prices.

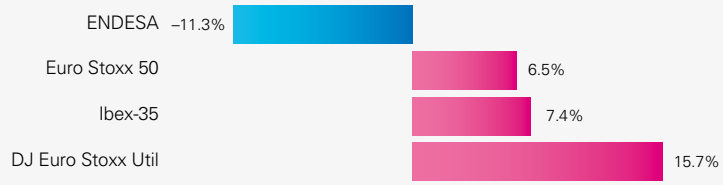
Starting in the spring, this complicated operating scenario was compounded

by speculation of seriously negative results for the next review of regulated business in the face of the second regulatory period that will begin in 2020. Investors factored in the fact that this review would particularly affect ENDESA, as it is focused exclusively on the Iberian market and approximately 70% of its business is regulated.

Finally, and despite the warm welcome that the new 2018-2020 Strategic Plan received when presented on 22 November, ENDESA's high level of exposure in Catalonia affected the shares during the last two months of the year, resulting in the stock recording its annual low of €17.855 per share at the end of 2017, with a total loss of 11.3% for the year.

Part of this negative stock market profitability was offset by the €1.333 per share that the company shared as an ordinary dividend against the 2016 results, resulting in a profitability per dividend of 6.6%. Nevertheless, total profitability for the shareholder, calculated as the sum of stock market profitability and profitability per dividend, was -4.7% in 2017.

ENDESA's evolution in the Madrid Stock Exchange and comparison with the main benchmark indices. 2017



At the close of the year, ENDESA's capital stock was 18,904 million E\ euros, earning it 11th place among the Ibex-35 most capitalized companies.

Evolution of ENDESA's stock market capitalisation (2013-2017) (M€)

Main statistical data of ENDESA shares in 2017

Continuous market	Maximum	Minimum	Average	Close	% Total Revaluation	% Total Profitability	Volume of shares traded
ENDESA (euro/share)	22.760	17.855	20.234	17.855	-11.3%	-4.7%	536,793,866

Source: *Madrid Stock Exchange.*

5.2. Dividend

In line with the Dividends Policy passed by ENDESA's Board of Directors on 22 November 2016 for the 2016- 2019 period, ENDESA's General Shareholders' Meeting, held on 26 April 2017, passed the distribution of a total ordinary dividend charged against the closed profits for the financial year 2016, at a gross amount of 1.333 Euros per share, a figure equalling 1,411 million euros. This dividend was paid to the shareholders in two cash payments made on 2 January 2017 of 0.7 euros gross per share (741 million euros in total), and 3 July 2017, of 0.633 euros per share (670 million euros).

Looking forward to the coming years, the Dividend Policy for the 2017-2020 period approved by the Board of Directors of the Company in its meeting held on 21 November 2017 establishes that

the ordinary dividend per share agreed to be shared against these years shall equal 100% of the ordinary net earnings attributed to the Parent Company in the consolidated financial statements of the Group that it heads, with a minimum of 1.32 euros gross per share for 2017 and a minimum equal to 1.33 euros gross per share for 2018.

It is the intention of the Board of Directors that payment of the ordinary dividend shall be made exclusively in cash, by payment in two instalments (January and July) on the specific date that is to be determined in each case and which shall be appropriately communicated. With regard to the ordinary dividends to be paid for with the income of the 2017 financial year, the Board of Directors of ENDESA, S.A., at the meeting held on 21 November 2017, agreed to distribute to the shareholders an interim dividend for the gross amount of 0.70 Euros gross per share.

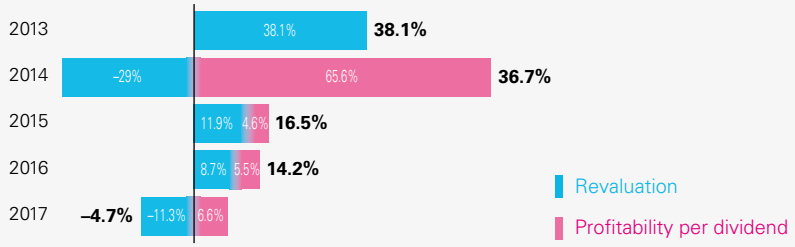
Payment of this dividend, which entailed an outlay of approximately 741 million Euros, was fulfilled on 2 January 2017.

5.3. Total profitability for the shareholders

Total profitability for the ENDESA shareholder was a negative 4.7% for the 2017 financial year, as the profit provided by the dividends paid for the year at 6.6% was not enough to compensate for the loss of stock value of 11.3% recorded for the shares.

During the last five years, the average total profitability for ENDESA's shareholders has been 20.2%.

Evolution of total profitability for ENDESA's shareholders 2013-2017



5.4. ENDESA in the IBEX 35

Since its return to IBEX-35 in November 2014, ENDESA is weighted in this index with a coefficient of 40% of the capital, since its floating capital *(free float)* is 29.9%, in the tranche between 20% and 30%.

With this balance, ENDESA's shares ended the year 2017 in 18th place in the IBEX-35, due to its level of capitalisation adjusted for free float.

5.5. Liquidity

The mean daily share figure of ENDESA shares traded in 2017, considering trading in the Continuous Market and including the blocks and special operations, amounted to 2,105,074 actions, 9.3% less than 2016, which was 2,319,791 shares.

The total volume traded in 2017 was a rotation 0.5 times the Company capital. However, this rotation was 1.7 times considering only the number of real shares in circulation at year-end, some 29.9% of the capital after the initial public offering carried out in 2014.

5.6. ENDESA's *rating*

2017 was a relatively quiet year in the fixed income market, despite central banks initiating adjustment plans for monetary policy normalisation of the market, after ten years of expansionary monetary policies.

The Spanish risk premium, comparing Spanish bonds with German ones, ended the year at 114 base points, two less than at the beginning of 2017. The annual high was recorded in February at 156.5 base points, while on 4 October it dropped back to 132.5 base points, just days after the Catalan independence referendum.

This scenario of relative calm despite the political instability in the wake of the Catalan conflict was endorsed by the major *rating*agencies. In this context, on 21 July the Fitch agency raised its sovereign *rating* outlook from Stable to Positive, maintaining a BBB+ classification, and on 29 September Standard & Poor's confirmed the Spanish rating at BBB+/A-2, also with a Positive outlook. And in 2018 Fitch improved its sovereign rating to A-, with a Stable outlook, on 19 January.

With regard to the electrical sector, its fundamentals remained healthy both in terms of stability of demand and tariff sufficiency. In this last regard, the most recent forecast from the Ministry of Industry once again indicates a surplus for 2017 and 2018.

In the case of ENDESA, it should be noted that S&P raised its rating from BBB to BBB+ on 7 December, moving to a Positive outlook from Stable that it had assigned in May. This review was noted in a general review of the rating for Enel after it presented its 2018-2020 Strategic Plan, and is based on the capacity of the Group to optimise its cost structure through its digitalisation plans, its focus on regulated business and on the renewable sector and simplification of its corporate structure.

The other agencies that rated ENDESA's credit reaffirmed their valuations during the financial year. On 16 May, the Fitch agency confirmed a BBB+ rating with a Stable outlook, and on 31 August Moody's also confirmed a rating of Baa2, also with a Stable outlook.

The evolution of ENDESA's credit *rating* has been as follows:

At year-end 2017, ENDESA's credit rating was "investment grade" according to all rating agencies. It should also be considered that ENDESA's rating is always limited to those of its parent company, Enel, in accordance with the methodologies used by the *rating*agencies.

ENDESA works to maintain an investment grade credit rating to be able to efficiently access money markets and bank funding, and to obtain preferential terms from its main suppliers.

	31 December 2017*			31 December 2016*		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Standard & Poor's	BBB+	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

* On the respective formulation dates of the Consolidated Management Report.

5.7. Relations with investors and activities of the Shareholders' Office

ENDESA maintains a constant relationship with its shareholders, both with private and institutional investors, and with the main stock market analysts, to whom it provides constant, detailed information through the Investor Relations Office and the Shareholders' Office located in Madrid.

In this regard, on 11 November 2015, the ENDESA Board of Directors, in accordance with the Code of Good Governance of Listed Companies, approved the 'Policy of communication and contact with shareholders, institutional investors and vote advisors'. The main objective of this Policy is that the Company maintains transparent, complete and truthful information, providing permanent attention to relations with its shareholders and institutional investors.

The general principles governing this policy are transparency, immediacy, continued information, equality of treatment, affinity to company interests and compliance with regulations.

The Auditing and Compliance Committee is the body responsible for supervising the communications strategy and shareholder and investor relations, including small and medium shareholders. In compliance with this policy, on 18th December the Auditing and Compliance Committee presented the Board of Directors with the 2017 report on Supervision of Communications Strategy and Relations with Shareholders, Investors and Other Stakeholders.

The conclusions of this report highlighted that ENDESA's communication channels are appropriate and that communications with shareholders, investors and other stakeholders are performed cor-

As Pontes Thermal Power Plant

rectly, in compliance with current regulations and with the general principles of ENDESA's Policy, and according to the best practices of corporate governance.

In this regard, it should be noted that ENDESA achieved the highest ranking in the 2017 Information Report, a study analysing the quality of the information that listed Spanish companies provide to their shareholders and interest groups when holding the annual general shareholders' meeting.

The Information Report, which analysed a total of 118 companies in this edition, evaluates the effort that companies exert to communicate beyond mere compliance with legal obligations. Based on the results of the study, ENDESA meets the four principles analysed: transparency, commitment, relevance and accessibility. The economic, financial, operational, environmentally-related, social and corporate governance information is 'complete and provides a full image of the company and its future prospects'.

Furthermore, the information that ENDESA provides to its stakeholders 'addresses all aspects of economic, social and environmental impacts related to the activities of the company' and 'is presented in a form that is clear and accessible for the various groups to which it is directed'.

5.7.1. Relations with investors

Among the activities performed by the Investor Relations Office in 2017, we should emphasize making public presentations to analysts and investors on the Company's quarterly results and updating its strategic plan.

On 22 November 2017, ENDESA presented to the market an update of its strategic plan for the 2018-2020 period.

ENDESA conducted three Non-Deal Road Shows during 2017. The first, in Europe and the United States, took place in March, subsequent to the presentation of the results of the year 2016. The second took place in the United States in September and the third in Europe and the United States in November, following the presentation of the 2018-2020 Strategic Plan update, with the aim of providing in-depth information on the update to the Company's principal investors. For these three Road Shows, ENDESA visited a total of 16 cities, meeting with 125 investors. ENDESA also participated in 5 Reverse Road Shows, meeting with 59 investors in Madrid.

ENDESA's Investor Relations Department also attended a total of 8 international conferences on the sector, where it was able to meet with 72 investors.

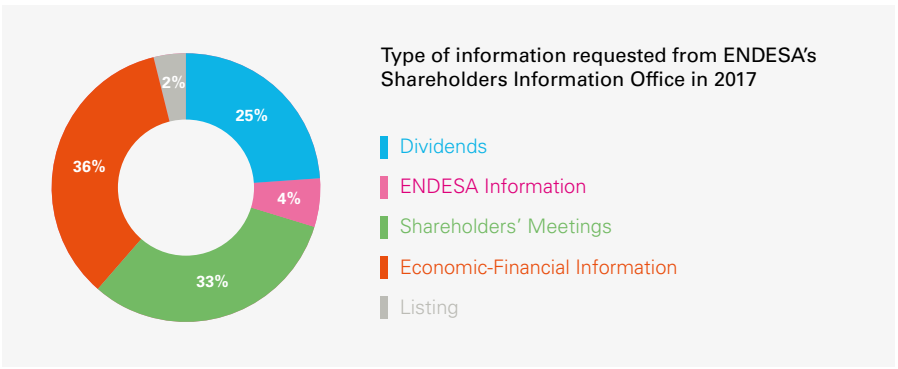
It should also be noted that as part of its daily activity, the Investor Relations Department responded to a total of 882 queries from analysts, investors and rating agencies by telephone, e-mail or in face-to-face meetings.

Finally, on 26 April 2017, at its headquarters in Madrid, ENDESA held its Ordinary General Shareholders' Meeting, at which all the items on the agenda were approved, with a quorum of 85.627% of the share capital being present.

5.7.2. Shareholders' Office

During 2017, ENDESA's Shareholders' Office responded to 1,750 telephone calls and received 47 visits, and 1,046 documentation deliveries were performed.

One of the most significant channels that the company places at the disposal of its private shareholders is the 'Information for Shareholders and Investors' included on its corporate website (www.endesa.com).



950,000
beneficiaries in 166 sustainability projects performed in 2017

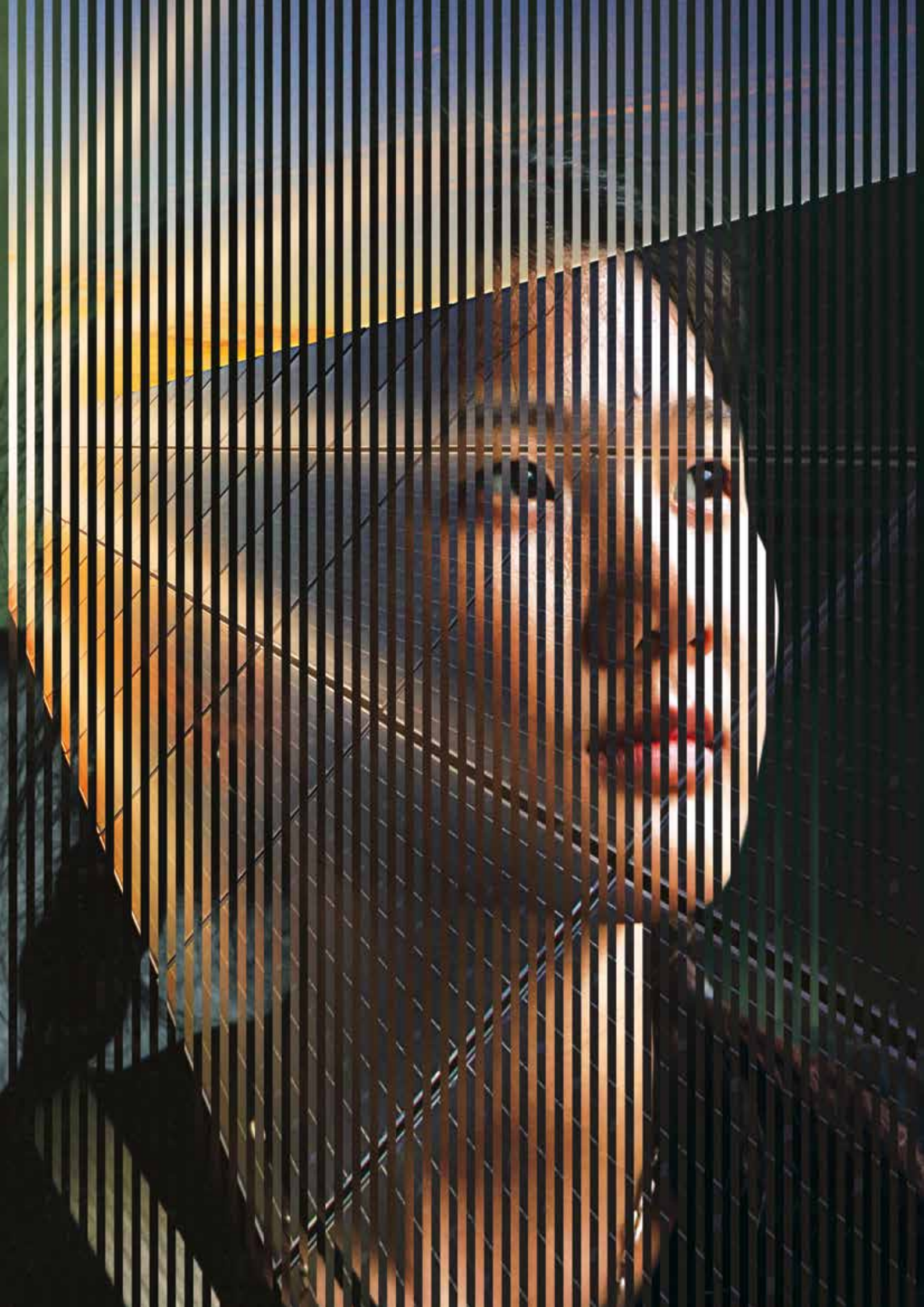
13.8
million euros invested in social development of the communities in which the company operates.

229
agreements with the Public Administration to facilitate access to electricity

34%
of the investment aimed at projects to promote access to energy

03

Governing bodies of the Company



Governing bodies of the Company

Executive Committee

CHAIRMAN
Mr Borja Prado Eulate

BOARD MEMBERS
Mr Francesco Starace
Mr José D. Bogas Gálvez
Mr Alberto de Paoli
Mr Miquel Roca Junyent
Mr Ignacio Garralda Ruiz de Velasco
Mr Alejandro Echevarría Busquet

SECRETARY
Mr Francisco Borja Acha Besga

Appointments and Remuneration Committee

CHAIRMAN
Mr Miquel Roca Junyent

BOARD MEMBERS
Mr Alberto de Paoli
Mr Ignacio Garralda Ruiz de Velasco
Mr Francisco de Lacerda
Ms Helena Revoredo Delvecchio
Mr Alejandro Echevarría Busquet

SECRETARY
Mr Francisco Borja Acha Besga

Board of Directors

CHAIRMAN
Mr Borja Prado Eulate

VICE-CHAIRMAN
Mr Francesco Starace

CEO
Mr José D. Bogas Gálvez

BOARD MEMBERS
Mr Alberto de Paoli
Mr Miquel Roca Junyent
Mr Alejandro Echevarría Busquet
Ms María Patrizia Grieco
Mr Enrico Viale
Ms Helena Revoredo Delvecchio
Mr Ignacio Garralda Ruiz de Velasco
Mr Francisco de Lacerda

SECRETARY
Mr Francisco Borja Acha Besga

Auditing and Compliance Committee

CHAIRMAN
Mr Ignacio Garralda Ruiz de Velasco

BOARD MEMBERS
Mr Alejandro Echevarría Busquet
Mr Alberto de Paoli
Mr Miquel Roca Junyent
Mr Francisco de Lacerda
Ms Helena Revoredo Delvecchio

SECRETARY
Mr Francisco Borja Acha Besga

Executive Management Committee

CEO
Mr José D. Bogas Gálvez

AUDIT DIRECTOR
Mr Luca Minzolini

ADMINISTRATION, FINANCE AND CONTROL DIRECTOR
Mr Paolo Bondi

COMMUNICATION DIRECTOR
Mr Alberto Fernández Torres

RESOURCES DIRECTOR
Mr José Luis Puche Castillejo

HUMAN RESOURCES AND ORGANISATION DIRECTOR
Mr Andrea Lo Faso

INSTITUTIONAL RELATIONS AND REGULATION DIRECTOR
Mr José Casas Marín

SUSTAINABILITY DIRECTOR
Ms María Malaxechevarría Grande

PURCHASES DIRECTOR
Mr Pablo Azcoitia Lorente

ICT DIRECTOR
Mr Manuel Fernando Marín Guzmán

MARKETING DIRECTOR
Mr Javier Uriarte Monereo

GENERATION DIRECTOR
Mr Manuel Morán Casero

ENERGY MANAGEMENT DIRECTOR
Mr Álvaro L. Quiralte Abelló

INFRASTRUCTURE AND GRID DIRECTOR
Mr Francesco Amadei

NUCLEAR DIRECTOR
Mr Juan María Moreno Mellado

SECRETARY GENERAL AND OF THE BOARD OF DIRECTORS AND LEGAL ADVICE DIRECTOR
Mr Francisco Borja Acha Besga

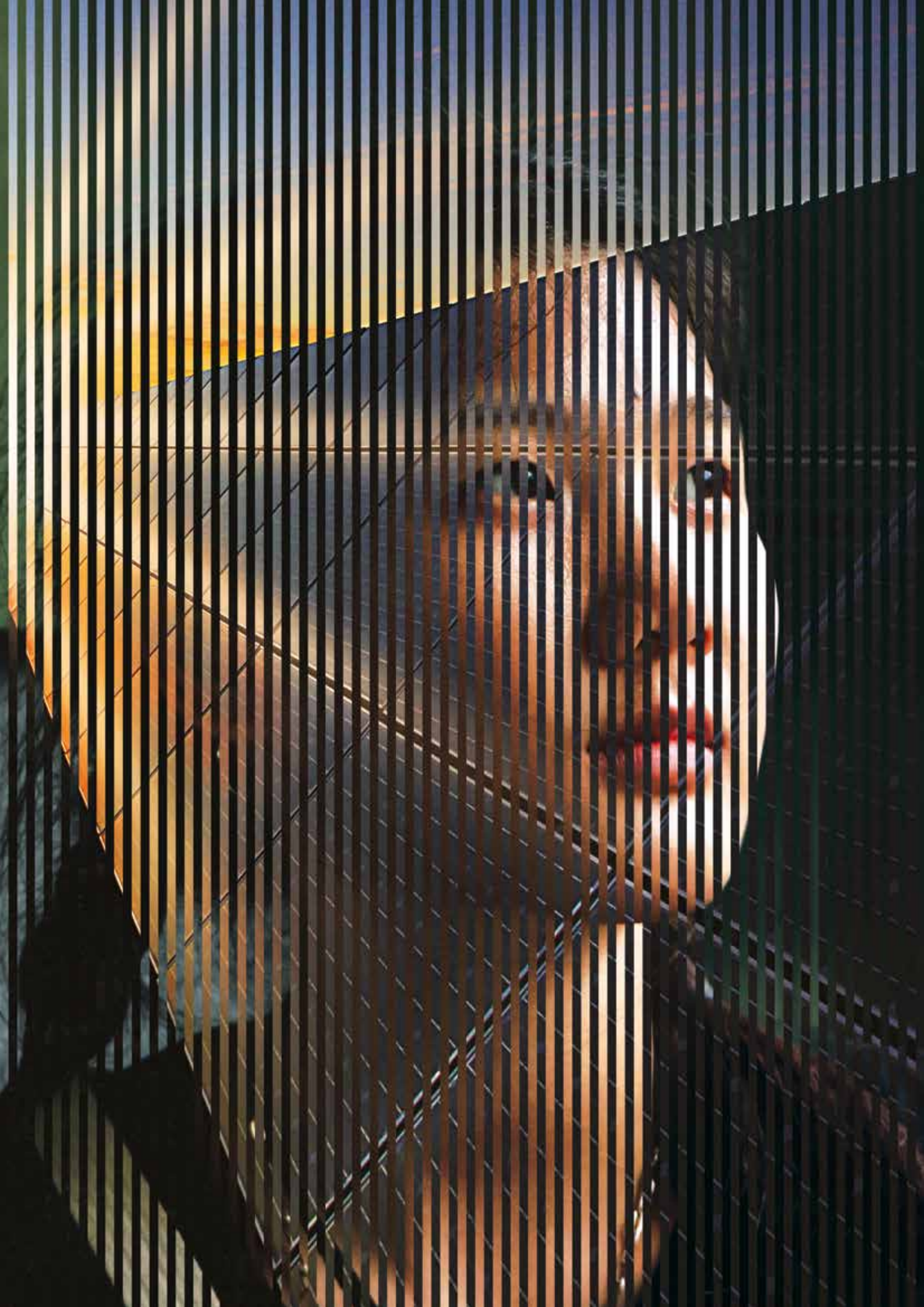
RENEWABLE ENERGIES DIRECTOR
Mr Enrique de las Morenas Moneo

ENEL X DIRECTOR
Mr Josep Trabado Farré

[1] Without prejudice to the functional dependency on the Audit and Compliance Committee.

04

Strategy



ENDESA's Industrial Plan

Energy paradigm

ENDESA has reaffirmed its commitment over the last few years to evolve towards a more sustainable and efficient business model, developing a comprehensive plan to meet the challenges faced by the energy sector and take advantage of new opportunities that may arise.

ENDESA favours a new energy paradigm with a transformation of its economic and industrial model towards a cleaner, more dynamic, efficient and sustainable model based on a totally decarbonised economy by the year 2050.

In this context, ENDESA estimates that development in the Electrical Sector will be affected primarily by the following trends:

- Increasing penetration of renewable energy sources, which will continue to expand in the future to reach emission reduction goals.
- Progressive electrification of the Electricity System.
- Stiff institutional and competitive pressure towards energy efficiency.
- Increasing customer sophistication.
- Other significant aspects like commodity price volatility, growing digitalisation of the industry or merging of sectors.

The European Union has stated its intention to fight against global warming and has set a target for full decarbonisation of the economy between 2050 and 2100, defining very specific, ambitious goals among its member nations that have been adopted almost completely in Spain, at the same level of ambition.

ENDESA believes that compliance with decarbonisation objectives in Spain will entail the development of initiatives such as the following:

- Electrification of demand.
- Increase in the level of penetration of renewable resources in the electrical generation mix.
- Promoting energy efficiency in all sectors.
- Development of smart grids.
- Guaranteeing security of supply, preserving the conventional efficient generation, essential during the transitional period to full decarbonisation.

By the same token, these initiatives will also require translation into specific actions such as:

- Tax reform to eliminate the current penalties imposed on electricity consumers.
- Promotion of electrification through new electric fees based on network use and on the development of infrastructures for electrification of transportation and investments centring on electrification.
- Guaranteeing an efficient compensation plan for new investments in the network.
- Maximising the progressive and programmed penetration of renewal energy in the generation mix based on market mechanisms.
- Implementation of a capacity market that guarantees and reinforces security of supply in the future.

Accordingly, ENDESA foresees that the path to decarbonisation will alter the electric production mix, giving more weight to renewable energy, and electrification of transport will require new investments in automation of the grid, also producing a modification of the current business model, which will evolve from the sale of electricity towards the provision of new products and services.

Realisation of the objective of decarbonisation of the economy requires the promotion of massive electrification of final energy demand through actions that drive internalisation of the cost of carbon dioxide (CO_2) emission rights in all emission sectors, electrical mobility plans and recharging infrastructures, assisted by a proactive role on the part of distribution operators, and rationalisation of the electricity tariff to bring about an energy model with efficient allocation of costs.

Electrification of demand must also be accompanied by improvement of energy efficiency through the development of plans that promote the adoption of measures with these characteristics.

ENDESA estimates that Spain will need over 40 GW of new production capacity during the 2015-2030 period under this new electrification and energy efficiency improvement process and in meeting expected energy consumption levels, and this new capacity will be fully renewable in line with decarbonisation objectives, resulting in electricity from renewable sources going from 36% in 2015 to approximately 63% in 2030.

In this scenario, it is anticipated that hydroelectric, nuclear and thermal (coal and combined cycle) technologies along with interconnection capacity for will play a major role in ensuring a smooth, successful transition in terms of price and security of supply during the decarbonisation period, bearing in mind that premature closing of conventional generation plants would reduce available capacity that cannot be offset by new renewable capacity.

Finally, automation and digitalisation of electric grids will be a key factor in making the best use of investments related to electricity and the operation of the Electricity System.

Strategic pillars

Taking into consideration the trends described and in order to capture the expected growth and to continue consolidating our position in the current market, ENDESA's strategic plan is totally aligned with the new energy paradigm and the new challenges, and will be based on the following priorities:

1. Focus on customers to maximise their value and lead the energy solution business.
2. Development and operation of more efficient grids.
3. Decarbonisation of generation capacity while maintaining security of the supply.
4. Achievement of these strategic pillars will require a commitment to digitalisation, innovation and efficiency.

Furthermore, all the objectives of ENDESA's Strategic Plan are fully aligned with the sustainable development commitments incorporated in its Sustainability Plan.

This strategic plan will guarantee an attractive shareholder compensation policy in the long run.

1. Focus on customers to maximise their value and lead the energy solution business

Orientation toward the customer will involve developing the following activities:

- Consolidating the current position of ENDESA in the gas and electricity marketing business in Spain, and growing in the French and Portuguese markets in the Business to Consumer (B2C) and Business to Business (B2B) segments. A series of actions has been defined to achieve these objectives that will allow maximising the number of customers in the liberalised market market through active management of ENDESA's customer base.
- Developing actions focused on maintaining and improving the margin, for which ENDESA will continue to manage its position in generation and marketing in an integrated manner.
- Directing the transformation of business toward efficiency and better understanding of the customer through developing analytical capabilities and management aimed at those segments that create more value.
- Developing more efficient and sophisticated products through the creation of a new line of business specifically related to this proposal called Enel X, which will focus its activities on energy solutions in the areas of industry, mobility, city and home.

2. Development and operation of more efficient grids

Development of the electricity grid is also a fundamental pillar of ENDESA's strategy, and the planned investment, driven by electrification of demand and integration of renewable energy, has the objective of improving quality and efficiency and reducing operating costs.

To that end, ENDESA has identified the following initiatives to prepare the electricity grid for the future:

- Digitalisation of the grid, for which approximately 60% of the investment plan provided will be allocated in distribution during the 2017-2020 period. These investments will primarily focus on completion of the project to install digital meters, automation of

the grid, improvement of efficiency in the quality of services and reduction of losses.

> Modernisation and development of innovation projects for the electricity grid, to which 10% of the investment plan is allocated for the 2017-2020 period.

> Expansion and improvement of the electricity grid through developing new investments, all of which will also allow keeping the distribution asset regulatory base stable between 2017 and 2020, at approximately 11 thousand million euros.

3. Decarbonisation of generation capacity maintaining the security of the supply

ENDESA's commitment to the gradual reduction of emissions to reach the final goal of zero emissions in 2050 is reflected in the following strategic initiatives:

> Significant growth in generation using renewable technologies, basically as result of the award made to ENDESA in the capacity auctions held in 2017. The integration of a total of 939 MW (540 MW wind and 399 MW photovoltaic) is planned over the next three years with investments estimated at approximately 900 million euros, as well as monitoring additional growth opportunities. Taking into account the experience of ENDESA and its market knowledge as well as its comprehensive management of its generation facilities, the greater capacity for renewable energy production will lead to diversification of the generation mix, mitigate regulatory and market risks, take advantage of synergies and improve the cost base.

> Long-term operation of nuclear power plants under secure conditions and with efficiency in costs, in order to guarantee the security of the supply.

> Keeping certain coal-fired plants that are efficient and adapted to environmental regulations in operation in order to prevent new investments in capacity that could increase the costs of the Electricity System, emissions and energy prices.

> Investment in generating facilities in Non-Peninsular Territories to maintain an asset base and guarantee security of supply, all in accordance with current environmental regulations. The incorporation of new capacity (290 MW), closing facilities (418 MW) and the start-up of pilot projects for storage technologies (80 MW) are being considered, among other actions.

4. Commitment to digitalisation, innovation and efficiency, and developing an efficient and sustainable plan

ENDESA has a strong commitment to digitalisation and the ongoing search for efficiencies, and it is developing investment plans for that purpose in all its Business that will permit additional cost reductions.

The key pillars that ENDESA will focus its efforts on in its digitalisation strategy are as follows:

> *Customers:* increasing the proportion of unregulated customers with electronic invoicing and digital interactions and sales.

> *Assets:* implementing the use of Big Data and IoT in its generation business, automating the distribution grid and completing the deployment of digital meters.

> *Employees:* developing a specific People Digital Transformation plan intended to foster cultural exchange and employee commitment to digitalisation.

In order to meet these aspirations, ENDESA is also putting to use the latest key tools available to develop the

digitalisation process in areas such as cybersecurity, technological platforms or migration of data servers.

Regarding strategic efficiency objectives, ENDESA persists in its strong commitment to the continuous search for efficiencies, and the major plans being developed in this area are the following:

- *Generation:* continuous development of improvement programmes and optimisation of fuel management and obtaining synergies in costs specifically with regard to renewable energies, thanks largely to unified operation management and maintenance of all the plants.
- *Distribution:* Automation of the transmission grid, finalisation of the digital meter implementation plan and cost optimisation programmes (personnel, equipment and systems).
- *Marketing:* Digitalisation initiatives and activities to reduce customer acquisition costs.

Main financial indicators

The Industrial Plan approved by the ENDESA, S.A.'s Board of Directors on 21 November 2017 envisages an investment target, net of grants and assets assigned by customers, of 5 thousand million euros in the 2017-2020 period, distributed, by type, in:

- Growth investments (55%).
- Maintenance investments (45%).

The distribution of said investment plan by Business Lines is as follows:

- *Generation* (54%) with investments in the Peninsula (22%), in Non-Peninsular Territories (14%) and in renewables (18%). The peninsula investments fundamentally include recurring maintenance investments and selective environmental investments in the imported coal power plants aimed at compliance with EU emissions legislation. With regard to the Non-Peninsular Territories, investments related to maintenance, environmental protection and selective capacity replacements are anticipated. Investment in renewables will concentrate on the development of new capacity.
- *Distribution* (40%) will focus on maintenance and growth investments to deploy smart meters, as well as development of the Quality Plan to expand grid automation.
- *Marketing* (6%), with investments in developing new software tools supporting customer digitalisation and development of new products and services.

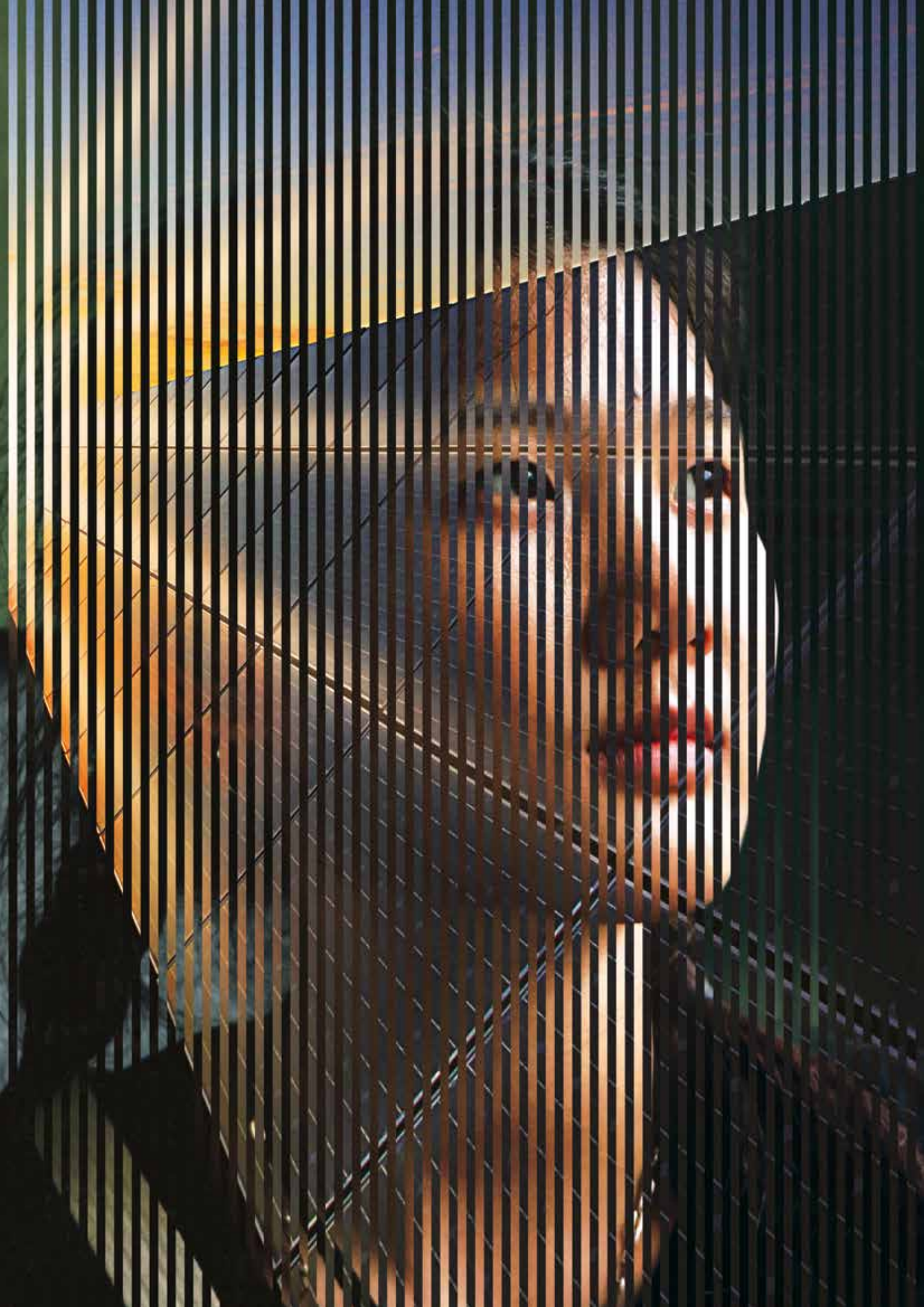
Based on the strategic pillars described in the previous paragraphs, and considering the estimates of economic, market and regulatory indicators in the coming years, ENDESA has prepared a business plan that includes, among other parameters, forecasts on economic indicators of the Group's consolidated results. According to it, ENDESA expects a positive evolution in:

- Gross operating profit (EBITDA): 3.7 thousand million euros in the financial year 2020.
- Net result: 1.6 thousand million euros in the financial year 2020.
- Net cash flow from operating activities, which will reach 6.7 thousand million euros during the 2018-2020 period and will enable ENDESA to adopt an investment plan and maintain an attractive shareholder compensation policy.

Notwithstanding the foregoing, the prospective information should not be considered a guarantee of future performance of the Company in the sense that said plans and forecasts are subject to risks and uncertainties that may mean ENDESA's future performance does not coincide with initial forecasts.

05

Economic-financial results



1. Economic-financial results

1.1. Consolidated key figures

1.1.1. Net profit

The results achieved in 2017 surpassed the objectives indicated by the business to the market, despite a complicated scenario during the first six months of the year, which saw considerable increases in wholesale prices.

ENDESA's net profit for 2017 was 1,463 million euros, an increase of 52 million euros (+3.7%) with regard to the amount obtained in the financial year 2016. The breakdown of the most significant components from financial year 2017 and how they vary from the previous year are as follows:

Millions of Euros

	Most relevant figures			
	2017	2016	Difference	% Var.
Income	20,057	18,979	1,078	5.7
Contribution margin	5,488	5,652	(164)	(2.9)
Gross operating profit (EBITDA)[1]	3,542	3,432	110	3.2
Operating profit (EBIT)[2]	2,031	1,965	66	3.4
Net financial result	(123)	(182)	59	(32.4)
Profit/(loss) before tax	1,900	1,710	190	11.1
Net gain/(loss)	1,463	1,411	52	3.7

[1] Gross operating profit (EBITDA) = Income - Procurement and Services + Work carried out by the Group for its Assets – Personnel Expenses – Other fixed operating expenses.
[2] Operating profit (EBIT) = Gross operating profit (EBITDA) - Amortisations and impairment losses.

The distribution of net profit between ENDESA's businesses and their variations during the 2017 financial year and their variation compared to the previous year is shown below:

Millions of Euros

	Net profit			
	2017	2016	% Var.	% Contribution to total
Generation and marketing[1]	263	751	(65.0)	18.0
Distribution	1,048	771	35.9	71.6
Structure and other[2]	152	(111)	Na	10.4
Total	**1,463**	**1,411**	**3.7**	**100.0**

[1] In the financial years 2017 and 2016 this included the net income of ENEL Green Power España, S.L.U. (EGPE) amounting to 51 million euros and 38 million euros respectively (see paragraph 2.4. Consolidation Scope of the Consolidated Management Report).
[2] Structure, services and adjustments.

More information on page 482 of the *Legal Report*.

1.1.2. Analysis of results

ENDESA reported gross operating profit (EBITDA) of 3,542 million euros in 2017 (+3.2%). To analyse the evolution of the EBITDA during the financial year 2017 the following factors must be considered:

1. The income estimate recorded under distribution activity compensation for the financial year 2017 was

arrived at taking into consideration the Ministerial Order proposal (now being prepared), which generated a positive impact of 176 million euros on income.

2. The cost increase in energy purchases (+21.6%) derived from the increase in wholesale market electricity prices (+31.6%).
3. The increase in fuel consumption (+38.9%) due to greater thermal production for the period and the higher fuel prices, together with the logical increment in value-added tax on the production of electric power.
4. The lower expense recorded for the subsidised rate of 222 million euros in accordance with Order ETU/929/2017 of 28 September and Order ETU/1288/2017 of 22 December, under which various rulings have been rendered in this regard and which has been completely charged as of the date of this Report.
5. The provisions under the various plant optimisation projects included in the ENDESA Restructuring and Reorganisation Plan, in the amount of 19 million euros (226 million euros in financial year 2016).
6. The contribution of ENEL Green Power España, S.L.U. (EGPE) in the amount of 181 million euros (75 million euros in the financial year 2016 from the time that control was assumed on 27 July 2016).

Operating profit (EBIT) for the financial year 2017 increased by 3.4% over the previous year, coming in at 2,031 million euros, mainly due to the following factors:

1. A 3.2% increase in gross operating profit (EBITDA).
2. Revaluation of the useful life of assets in operation and modification of the depreciation policy for hydroelectric plants and wind and photovoltaic farms, which reduced the depreciation expense by 76 million euros for the financial year.
3. The contribution from the consolidation of 100% of ENEL Green Power España, S.L.U. (EGPE) in the amount of 74 million euros, which has the effect of changing the useful life of the renewable plants.

More information on pages 482 and 483 of the *Legal Report*.

Income

In the financial year 2017, income was 20,057 million euros, 1,078 million euros more (5.7%) than what was obtained for in the financial year 2016.

Millions of Euros

	2017	2016
Sales	19,556	18,313
Other operating revenue	501	666
Total	**20,057**	**18,979**

Of this amount, 19,556 million euros correspond to sales figures (+6.8%) and 501 million euros to other operating revenue (-24.8%). The distribution of sales and other operating revenue among ENDESA's businesses and their variation compared to the same period for the previous financial year is shown below.

Millions of Euros

	Sales				Other operating revenue			
	2017	2016	% Var.	% Contribution to total	**2017**	2016	% Var.	% Contribution to total
Generation and marketing	17,223	16,190	6.4	88.1	286	438	(34.7)	57.1
Non-Peninsular Territories	1,943	1,638	18.6	9.9	9	9	—	1.8
Other generation and marketing[1]	16,204	15,325	5.7	82.9	277	429	(35.4)	55.3
Adjustments	(924)	(773)	19.5	(4.7)	—	—	—	—
Distribution	2,492	2,268	9.9	12.7	258	270	(4.4)	51.5
Structure and other [2]	(159)	(145)	9.7	(0.8)	(43)	(42)	2.4	(8.6)
Total	**19,556**	**18,313**	**6.8**	**100.0**	**501**	**666**	**(24.8)**	**100.0**

[1] The financial year 2017 includes the income from ENEL Green Power España, S.L.U. (EGPE) amounting to 280 million euros (118 million euros in the financial year 2016 from the time that control was assumed on 27 July 2016).
[2] Structure, services and adjustments.

More information on pages 483 to 486 of the *Legal Report*.

Sales

The 2017 sales were 19,556 million euros. The breakdown for the financial year 2017 and its variation compared to the previous year are presented below:

More information on pages 485 and 486 of the *Legal Report*.

Millions of Euros

	Sales[1]			
	2017	2016	Difference	% Var.
Electricity sales	14,451	13,541	910	6.7
Liberalised market sales	8,457	8,213	244	3.0
Supplies to customers in liberalised markets outside Spain	1,076	961	115	12.0
Sales at Regulated Prices	2,460	2,412	48	2.0
Wholesale market sales	1,137	875	262	29.9
Non-Peninsular Territories compensation	1,215	1,015	200	19.7
Other electricity sales	106	65	41	63.1
Gas Sales	2,233	2,079	154	7.4
Regulated revenue from electricity distribution	2,231	2,054	177	8.6
Other sales and service provision	641	639	2	0.3
Total	**19,556**	**18,313**	**1,243**	**6.8**

[1] The financial year 2017 includes the sales of Enel Green Power España, S.L.U. (EGPE) amounting to 270 million euros (118 million euros in the financial year 2016 from the time that control was assumed on 27 July 2016).

Other operating revenue

In the financial year 2017, other operating revenue has amounted to 501 million euros with a decrease of 165 million euros (-24.8%) compared to the amount recorded in the financial year 2016.

Income from valuation and settlement of energy derivatives for financial year 2017 dropped by 175 million euros (-54.0%) compared to the previous year, partially offset by the decrease in costs for valuation and settlement of derivatives in the same category by the amount of 86 million euros (-32.0%) recorded in the entry 'Other Variable Procurements and Services', as a result, fundamentally, of evolution of the valuation and settlement of gas derivatives.

Operating expenses

Operating expenses totalled 18,248 million euros in 2017, up by 6.5% against the previous financial year.

The breakdown of operating expenses for financial year 2017 and their variation compared to the previous year are presented below:

Millions of Euros

	Operating costs[1]			
	2017	2016	Difference	% Var.
Procurement and services	14,569	13,327	1,242	9.3
Energy purchases	4,933	4,056	877	21.6
Fuel consumption	2,294	1,652	642	38.9
Transmission costs	5,652	5,813	(161)	(2.8)
Other variable procurement and services	1,690	1,806	(116)	(6.4)
Personnel expenses	917	1,128	(211)	(18.7)
Other fixed operating expenses	1,251	1,209	42	3.5
Amortisation and impairment losses	1,511	1,467	44	3.0
Total	**18,248**	**17,131**	**1,117**	**6.5**

[1] The financial year 2017 includes the operating costs of Enel Green Power España, S.L.U. (EGPE) amounting to 206 million euros (102 million euros in the financial year 2016 from the time that control was assumed on 27 July 2016).

Procurement and services

Procurements and services (variable costs) have amounted to 14,569 million euros for the financial year 2017, with an increase of 9.3% compared to the previous financial year.

Details of these costs for the financial year 2017 are as follows:

- Fuel stock purchases increased by 877 million euros (+21.6%) to 4,933 million euros, largely as a result of the increase in the cumulative wholesale arithmetic price of electricity acquired in the wholesale market (€52.2 / MWh, + 31.6%) and for the gas acquired for sale to end customers.
- The cost of the fuel consumed in 2017 was 2,294 million euros, up 38.9% (642 million euros) due to higher thermal production for the financial year and the increase in the average purchase price.
- The entry 'Other Variable Procurements and Services' amounted to 1,690 million euros, down 116 million euros (-6.4%) compared to the financial year 2016. The variation is caused primarily by:

  – The lower expense recorded for the Subsidised Rate of 222 million euros in accordance with Order ETU/929/2017 of 28 September and Order ETU/1288/2017 of 22 December by which various rulings have been rendered and the National Commission for the Markets and Competition (CNMC) was ordered to return all of the amounts paid by ENDESA, S.C. under the Subsidized Rate for the financial years 2014, 2015 and 2016.
  – The increase of 83 million euros in tax on electrical energy production due to the higher production value for the period, 11 million euros of which correspond to Enel Green Power España, S.L.U. (EGPE).
  – The decrease of 86 million euros (32.0%) in expenses for energy derivatives, offset in part by a decrease of 175 million euros in revenue for this same item (-54.0%) recorded under the item 'Other Operating Expenses', primarily due to the evolution in valuation and settlement of gas derivatives.
  – The increase of 63 million euros in nuclear taxes of the Autonomous Community of Catalonia, bearing in mind that in the financial year 2016 adjustment of the tax in force at that time of 63 million euros was included a result of the ruling of the Constitutional Court dated 20 April 2016, which declared it unconstitutional.
  – The increase of 26 million euros in the costs of carbon dioxide (CO_2) emission rights due to higher thermal production.

Personnel expenses

Personnel expenses for the financial year 2017 amounted to 917 million euros, with a decrease of 211 million euros (-18.7%) with respect to the financial year 2016. To analyse the evolution of personnel expenses during the financial year 2017, the following factors must be considered:

- The provisions recorded during financial years 2017 and 2016 in voluntary dismissal agreements, for an amount of 19 million euros and 226 million euros, respectively.
- Updating the provisions for workforce reduction plans and contract suspension agreements for an increase of 27 million euros in the financial year 2017 and 17 million euros in the financial year 2016.
- Net allowance for provisions in both financial years for handling labour-related compensation and risks for an increase of 3 million euros in the financial year 2017 and a decrease of 14 million euros for the financial year 2016.
- The effect of the incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of 15 million euros in 2017 and 7 million euros in 2016.

Isolating these factors, personnel expenses for the financial year 2017 would have increased by 15 million euros (+1.7%), primarily due to the inclusion of staff with 319 employees corresponding to systems and telecommunications (ICT) activity.

Other fixed operating expenses

Other fixed operating expenses in the financial year 2017 amounted to 1,251 million euros, an increase of 42 million euros compared to 2017 (+3.5%).

Isolating in both financial years, the effect of the incorporation of ENEL Green Power España, S.L.U. (EGPE) amounting to 60 million euros and 22 million euros respectively, other fixed operating expenses for the financial year 2017 would have increased by 4 million euros over the previous year (+0.3%), fundamentally due to the increase in taxes and fees (18 million euros).

Amortisations and Impairment losses

Amortisations and impairment losses for the financial year 2017 were 1,511 million euros, with an increase of 44 million euros (+3.0%) with respect to 2016. The effects detailed in the following paragraphs must be considered in analysing the evolution in amortisation and impairment losses during the financial year 2017.

ENDESA concluded various analyses that it was conducting in the financial year 2017 on the useful life of its operating assets. Based on these, and given current circumstances, the amortization policy has been modified as follows:

- The best current estimate of the useful life of the wind and photovoltaic farms is 30 years, compared to the 25 and 20 years previously considered, respectively.
- The civil engineering cost for hydroelectric plants was moved to be amortised in a period of 100 years, and the mechanical electrical equipment in them in a period of 50 years, both limited to the concession period, as compared with 65 and 35 years previously considered.

Both of these measures, which took effect starting on 1 January 2017, favourably impacted amortisation expenses for the financial year 2017 in the amount of 34 million euros and 42 million euros respectively.

A net reversal of provisions for asset impairment was recorded in the amount of 21 million euros for the financial year 2017, of which 14 million euros are for reversals of provisions posted in previous financial years for certain properties.

Over the last two financial years, ENDESA has indicated the impact of the integration of Enel Green Power España, S.L.U. (EGPE), including the effect of the change in useful life for renewable plants, for the amount 107 million euros and 59 million euros respectively.

More information on pages 487 to 489 of the *Legal Report*.

Net financial result

Millions of Euros

	Net Financial Result[2]			
	2017	2016	% Var.	% Contribution to total
Financial revenue	51	44	15.9	(41.5)
Finance expenses	(178)	(222)	(19.8)	144.7
Net exchange differences	4	(4)	(200.0)	(3.2)
Total[1]	**(123)**	**(182)**	**(32.4)**	**100.0**

[1] The financial year 2017 includes the net financial income of Enel Green Power España, S.L.U. (EGPE) amounting to an increase of 2 million euros (1 million euros in financial year 2016 from the time that control was assumed on 27 July 2016).
[2] Net Financial Income = Financial Income – Finance Expense + Net Exchange Differences.

The net financial results for 2017 have been negative by an amount of 123 million euros, which represents a decrease of 59 million euros (-32.4%) with respect to the previous financial year (also negative at 182 million euros).

The net financial expenses for the financial year 2017 amounted to 127 million euros, 51 million euros less (-28.7%) than the previous year. To analyse the evolution of net financial expenses during financial year 2017, it must be taken into account that the evolution of long-term interest rates that occurred in the financial years 2017 and 2016 resulted in an updating of the provisions regarding obligations arising under workforce reduction plans in force and for contract suspension agreements, which resulted in a positive impact of 4 million euros and a negative impact of 55 million euros respectively. Furthermore, in the financial

year 2017 financial income in the amount of 15 million euros was recognised associated with various rulings regarding the Subsidized Rate. On the other hand,, financial income related to the adjustment of interest by the financing of the deficit in income from activities regulated in Spain, amounted to 12 million euros. Net financial expenses for the financial year 2017 also include the positive effect from the inclusion of Enel Green Power España, S.L.U. in the amount of 2 million euros (and 1 million euros in the financial year 2016 from the date of assuming control on 27 July 2016).

Without considering the impact indicated in the above paragraphs, net financial expenses for the financial year 2017 increased by 12 million euros (+8.8%) due to the lower average costs of gross financial debt, which went from 2.5% in 2016 to 2.1% in 2017, and to the increase in average gross financial debt that has evolved from 5,191 million euros in 2016 to 6082 million euros in 2017.

More information on pages 489 to 490 of the *Legal Report*.

1.1.3. Cash flows

On 31 December 2017, the amount of cash and other cash equivalents was 399 million euros (418 million euros on 31 December 2016).

On 31 December 2017 and 2016, ENDESA's net cash flows, classified by operating, investment and financing activities, have been as follows:

Millions of Euros

	Statement of cash flows			
	2017	2016	Difference	% Var.
Net cash flows from operating activities	2,438	2,995	(557)	(18.6)
Net cash flows from investment activities	(1,115)	(2,317)	1,202	(51.9)
Net cash flows from financing activities	(1,342)	(606)	(736)	121.5

In the financial year 2017, the net cash flows generated by operating activities (2,438 million euros) were sufficient to deal with the necessary investments to develop ENDESA's businesses (1,115 million euros) in addition to the net cash flows from the financing activities (1,342 million euros), producing a decrease during the period of 19 million euros in cash and other cash equivalents.

1.1.4. Equity

On 31 December 2017, ENDESA, S.A.'s share capital is 1,270,502,540.40 euros and is represented by 1,058,752,117 shares of 1.2 Euros nominal value, totally subscribed and paid up, which are fully admitted for trading on the Spanish Stock exchanges. This figure did not change in the financial years 2017 and 2016.

The percentage of ENDESA, S.A.'s share capital that Enel Group holds, through Enel Iberia, S.L.U., on 31 December 2017 and 2016 is 70.101%. On these same dates, no other shareholder held shares worth more than 10% of ENDESA, S.A.'s share capital.

More information on pages 354 to 363 of the *Legal Report*.

Millions of Euros

	Notes	**31 December 2017**	31 December 2016
Total equity of the parent company	**15.1**	**9,096**	**8,952**
Share capital	15.1.1	1,271	1,271
Share premium	15.1.2	89	89
Legal reserve	15.1.3	254	254
Revaluation reserve	15.1.4	404	404
Other reserves	15.1.5	106	106
Adjustments for changes in value		(52)	(38)
Conversion differences		—	1
Unrealised valuation adjustments	15.1.6	(52)	(39)
Reserve for actuarial gains and losses	15.1.7	(657)	(757)
Retained earnings	15.1.8	8,422	8,364
Interim dividend	15.1.9	(741)	(741)
Total Net worth of minority interests	**15.2**	**137**	**136**
Total equity		**9,233**	**9,088**

2. Financial management

2.1. Evolution of debt level and average cost of the debt

ENDESA's net financial debt was 4,985 million euros on 31 December 2017, an increase of 47 million euros compared to the previous close of the financial year. The average cost of ENDESA's debt was 2.1% in 2017.

At year-end, the gross financial debt was denominated in Euros 100%. The total volume of gross fixed rate financial debt was 67% on 31 December 2017, whilst the remaining 33% was variable interest rate. The average life of the gross financial debt of ENDESA and its subsidiaries was equal to 6.1 years in December 2017.

The liquidity rose to 3,495 million euros, of which 3,096 million corresponded to amounts unconditionally available in lines of credit, from which 1,000 million corresponded to a line of credit with ENEL Finance International, N.V. This liquidity level allows having a coverage equal to 29 months in debt maturity.

As of 31 December 2017, ENDESA had accumulated right of collection of 530 million euros through various appropriations accepted under Spanish electricity regulations: 222 million euros for financing deficit in income from regulated activities, 304 million euros for compensation for surcharges for non-peninsular generation and 4 million euros under other regulatory entries. The net indebtedness of ENDESA was 4,455 million euros once these amounts are discounted.

Millions of Euros

Structure of ENDESA's gross financial debt

	31 December 2017	31 December 2016	Difference	% Var.
Euro	5,392	5,367	25	0.5
Total	**5,392**	**5,367**	**25**	**0.5**
Fixed rate	3,611	3,661	(50)	(1.4)
Variable rate	1,781	1,706	75	4.4
Total	**5,392**	**5,367**	**25**	**0.5**
Average life (no. of years)	6.1	6.5		
Average cost (%)	2.1	2.5		

2.2. Credit rating

At the time of presenting the report, ENDESA's long-term credit ratings are 'BBB+' at Standard & Poor's with stable outlook, 'Baa2' in Moody's and 'BBB+"' at Fitch, both with stable outlook.

> **Leverage ratio**

ENDESA's leverage ratio on 31 December 2017 came to 54.0% compared with 54.3% of 31 December 2016.

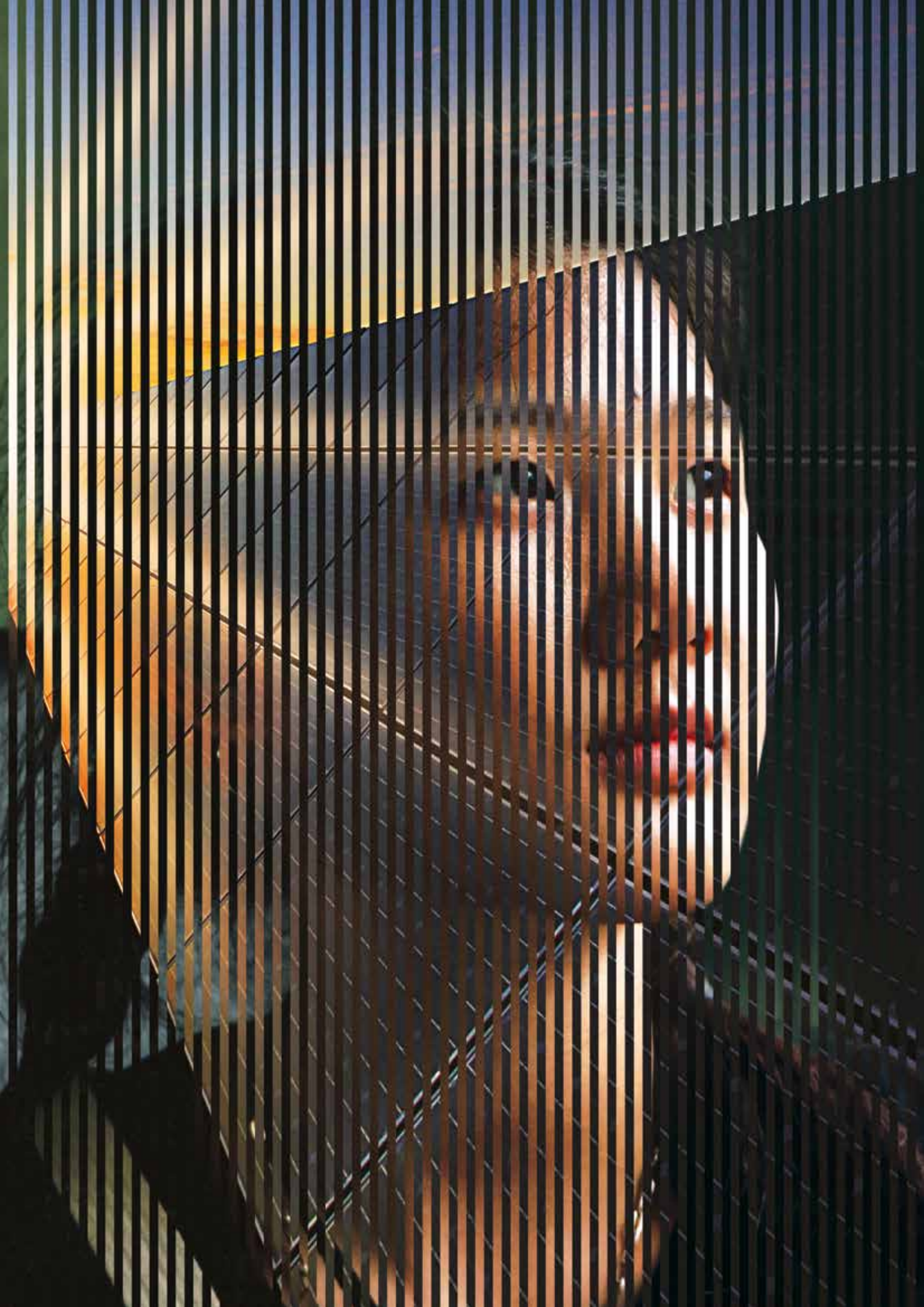
> **Main financial operations**

- The following operations can be highlighted from among those performed in 2017:
- Tranches B and C amounting to 150 million euros each have been arranged under framework of the ENDESA Network Modernisation financial operation signed with the European Investment Bank (EIB) in 2014 dated 18 January 2017 and 20 February 2017, completing the arrangement of the operation for a total amount of 600 million euros. Both arrangements have variable rates, maturing in 12 months amortisable commencing in 2021.
- In the financial year 2017, ENDESA S.A. signed a three-year extension with various financial institutions with possibility of extension to five years for most of its lines of credit, for an amount of 1,985 million euros.

- On 30 June 2017, ENDESA S.A. signed the renegotiation of its committed and irrevocable intercompany line of credit signed with ENEL Finance International N.V. in the amount of 1,000 million euros, extending its maturity to 30 June 2020 and adjusting the financial conditions.
- On 21 December 2017, ENDESA S.A. signed a financing arrangement pending disbursement on the date of presentation of the annual report with the European Investment Bank (EIB) in the amount of 500 million euros, with a term of 12 years and a three-year grace period.
- On 28 December 2017, ENDESA S.A. renewed the uncommitted intercompany credit facility with ENEL Finance International N.V. in the amount of 1,500 million euros, extending its maturity to 28 December 2018 and maintaining all other conditions unchanged. As at 31 December 2017 this uncommitted credit line had not been drawn down.
- ENDESA, S.A. maintained the issue programme of Euro Commercial Paper (ECP) through International ENDESA, B.V., and the outstanding balance at 31 December 2017 was 889 million euros, with its renewal supported by contracted liquidity lines.

06

Business



1. Generation business

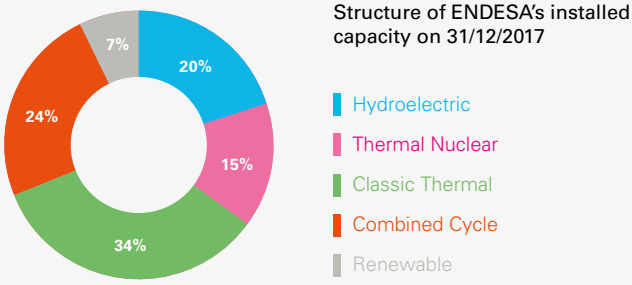
ENDESA's total installed capacity at 2017 year-end came to 23,678 MW. From this amount 16,920 MW are in the peninsular electricity system, 5,083 MW in the non-mainland systems (Balearic Islands, Canary Islands, Ceuta and Melilla) and 1,675 MW correspond to renewable energy (Enel Green Power España S.L.U.).

During 2017, electricity demand in Spain experienced an increase of 1.6% with compared with the previous year (corrected for the industrial activity and temperature effect). The electric demand keeps up the positive evolution of the last two years.

Coverage of the demand highlights the reduction in the hydraulic contribution, which is replaced by carbon production and combined cycles. Among the technologies that have contributed to covering the demand is nuclear production, which contributes 21% of the generation, followed by wind power, with 18%. It should be noted that 3% of the demand has been covered by energy imported from other countries (Source: REE).

In this setting, ENDESA's generation facilities achieved in 2017 a total production of 78,648 GWh, 12.6% higher than the previous year, of which 62,164 GWh correspond to Peninsula generation under the ordinary regime, 11% greater than in 2016, 13,043 GWh to generation under the ordinary regime in non-peninsular electricity systems, an increase of 3.2%. Additionally, renewable energy production of 3,441 GWh was recorded as a result of the total acquisition by ENDESA S.A. from ENEL Green Power España, S.L.U. on 27 July 2016.

With respect to production with conventional energy sources, it is worth noting the lower contribution from hydraulic production as compared to the previous year (-30.2%). On the other hand, it highlights the increase of National Coal production (+15.3%), Imported Coal (+18.2%) and Combined Cycles (+118.0%).



Structure of ENDESA's installed capacity on 31/12/2017

ENDESA's electricity production in power plant busbars (GWh)

	2017	2016	% Var.	% of Total
Hydroelectric	5,004	7,173	(30.2%)	6.4%
Nuclear	26,448	25,921	2.0%	33.6%
Domestic coal	7,835	6,793	15.3%	10.0%
Imported coal	14,468	12,240	18.2%	18.4%
Combined cycles	8,409	3,858	118.0%	10.7%
Total peninsular	**62,164**	**55,985**	**11.0%**	**79.0%**
Non-peninsular electric systems	13,043	12,634	3.2%	16.6%
Renewables and cogeneration	3,441	1,212(*)	183.9%	4.4%
Total	**78,648**	**69,831**	**12.6%**	**100.0%**

(*) Corresponds to the power generated by Enel Green Power España, S.L.U. since the date that it assumed control, 27 July 2016.

Renewable energy generation

ENDESA has 6,427 gross MW of renewable power installed, of which 4,752 MW correspond to large hydroelectric, 43 MW pertain to small hydroelectric, 1,618 MW to wind power, 13 MW to photovoltaic and 0.5 MW to biomass plants.

In 2017, ENDESA generated 8,445 GWh with renewable energy sources. Of that

number, 5.004 GWh pertain to large hydroelectric, 64 GWh to small hydroelectric, 3,351 GWh to wind power, 25 GWh to photovoltaic and 1 GWh to biomass plants.

May 2017 Auction

On 16 May, the ENDESA's renewable energies branch, Enel Green Power España, was awarded a total of 540 MW of power for installation of new wind power production farms. This new capacity was assigned after bidding on 2,000 MW of renewable energy (which could be expanded up to 3,000 MW) that the Spanish government launched to achieve the objective of covering 20% of energy consumption for the country with renewable energies in 2020. The new award entails raising ENDESA's installed wind power capacity to 2,157 MW.

The wind power projects will be located in the regions of Aragon, Andalusia, Castile and Leon and Galicia, Autonomous Communities that already have wind power resources. When they go into operation, the wind power facilities will generate approximately 1,750 GWh per year and will avoid emissions of approximately 1,050,000 tons of CO_2 to the atmosphere.

June 2017 Auction

On 26 June, OMIE held another auction that had the objective of reaching 3,000 MW of new capacity in renewable energies. ENDESA, through its renewable energies division, Enel Green Power España (EGPE), was awarded 339 MW of photovoltaic solar capacity in Spain.

This solar capacity obtained by the company is in addition to the 540 MW of wind power that was awarded during the month of May. Thus, altogether in 2017, ENDESA was awarded a total of 879 MW of new renewable power, which entails an increase of 52.4% of its current capacity for these technologies in Spain.

ENDESA will invest approximately 270 million euros in construction of solar power that was awarded to it at this last auction. That amount adds up to 600 million in projected investment as a result of the award of the 540 MW in the May auction, which entails even exceeding the investment planned at the renewables site in the company's current Industrial Plan.

Projects in which this new power will materialize will go into operation in 2019. All of them will sell their energy on the Spanish market and the government will offer incentives through annual capacity payments, to attempt to achieve ongoing returns over the 25-year working life of the farms.

ENDESA's new solar projects, which will be located in the regions of Murcia and Badajoz, will generate approximately 640 GWh per year and will avoid emissions of approximately 348,000 tons of CO_2 to the atmosphere.

Conventional generation

On 31 December 2017, ENDESA had 17,251 MW of conventional power installed, of which 3,443 MW corresponded to nuclear power generation, 8,130 MW to classic thermal generation facilities (coal, fuel and gas oil) and 5,678 MW to combined cycles, of which 855 MW are in Portugal.

New facilities and operating improvements in conventional generation

The main electrical infrastructures projects commenced, developed or completed during 2017 in Spain were the following:

Peninsular system

- NO_x and SO_2 emissions reduction systems were commissioned in Group 2 of the Litoral Thermal Production Power Unit (Almería).
- Implementation of primary NOx reduction measures in Units 1 and 3 of the Puentes Thermal Power Plant (La Coruña) by means of the installing *(Over Fire Air-OFA)* systems to optimise combustion in terms of emissions, achieving values close to IED limits, which will allow, by installation of secondary NOx reduction systems, compliance with BREF emission limits.
- Development of engineering work, assembly of the NO_x emissions reduction system and development of the SO_2 emissions reduction system engineering in the 4 units of the Puentes Thermal Production Unit (La Coruña).
- Evaluation, development and implementation of life extending activities in equipment and main systems of the Litoral Thermal Production Unit (Almería).

- Finalization of the contracting projects and start of work pertaining to demolition of the Foix Thermal Power Plant.
- Demolition of old fuel units from the Cristóbal Colón Plant. Once the new REE substation is done in December 2015, which prevented finalization of the demolition of the turbines building and after the office and spare parts warehouse demolition project is done and added to the original demolition project, demolition is expected to continue in the first half of 2018.

Non-peninsular system

- Development of control system modernisation of Units 3 and 4 of the Alcudia Thermal Production Unit (Majorca).
- Execution of the works for the partial closure of the ash landfill of the Alcudia Thermal Production Unit (Majorca).
- Continuation of the project to improve non-peninsular generation, with 619 actions implemented up to the year 2017 and another 285 actions in progress in mechanical and electrical equipment, lines and protections, control systems, maintenance and training plans, in the ten power plants located in isolated grids, with generation solely dependent on the power plant.
- Development and sequential implementation of zero-output simulators in Ceuta in 2016 and Melilla, Salinas and Punta Grande in 2017, with regular training procedures for the operation and maintenance staff to exit zero electricity conditions quickly and reliably.
- Finalization of noise emissions reduction improvement activities in the Punta Grande Power Plant. Assessment, launch and execution of phases 1 and 2 of the noise emissions reduction activities in the Salinas Plant.

Mining

ENDESA's coal mining activity in Spain took place in four mining centres: As Pontes (La Coruña) and Andorra (Teruel) belonging to ENDESA Generación and Puertollano (Ciudad Real) and Peñarroya (Cordoba) via the company ENCASUR. Since 2016, there has been no coal production since the mining operation ceased the previous year, however, there is coal production in the mining operations belonging to ENDESA Generación with authorization to cease work (administrative closing) and those of ENCASUR in restoration phase.

Despite the closing of mining activity at the end of 2015, at the last mining operation that ENDESA kept operative, the Emma mine (ENCASUR) continued commercial activity with the Puente Nuevo Thermal Power Plant (Córdoba), by selling the coal coming from the ENCASUR stockpiles. During 2017, 450,000 tons, the equivalent of 1,510 million therms of P.C.I. were sold. These sales took place within the scope of the supply contract signed by ENCASUR with Viesgo Generación in the month of January 2016.

In 2017, activity in the Puertollano mining operation was also focused on restoration work, in addition to management of coal deliveries, with the construction of infrastructure in the final gap, reforesting work (seeding and planting) and dismantling as well as the sale of facilities and mining equipment. After 1 January 2018, Puertollano mine shall not continue with restoration work, coal stock management, management of the sale of fixed assets and execution of the end of activity plan, as with the other mines, until achieving the mandatory stoppage of work authorisation.

Furthermore, in the mining centre of Peñarroya, maintenance and environmental supervision work continued in the 'Corta Ballesta East' mine, where restoration and maintenance work has been taking place.

Regarding the As Pontes mining operation, during 2017, final authorization to abandon the operation as well as approval of the demarcation of the public water supply for the lake was obtained. Part of the mining land was transferred to the As Pontes Council and the works involved in the End of Activity Plan and the work involved with dismantling the machinery was completed.

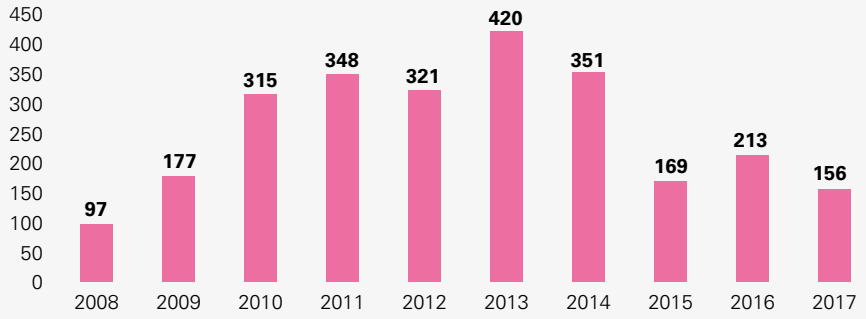
The Andorra mining operation remained inactive during 2017, once work was abandoned in October 2016.

ENDESA in the wholesale markets

The Spanish wholesale market

Energy allocated for sales to electricity market end-customers through distributors and resellers, to exports and coverage of the own system

Spain (TWh) Volume traded in forward markets



consumptions (losses in the network, auxiliary consumption of the plants and pumped consumptions) reached 253 TWh on the Peninsula during 2017.

64% of demand was covered with conventional thermal power generation, 33% by renewable energies and 3% with the importer balance of international exchanges.

During 2017, a volume of approximately 156 TWh has been traded in the forward markets, 27% less than in 2016. Of the total volume traded, 14 TWh were closed in Organised Markets (OMIP and EEX). Of the remaining 142 TWh (volume negotiated in OTC), 94 TWh were recorded in the three clearing houses that operate in Spain: EEX (61 TWh), OMIClear (16 TWh) and MEFFPower (17 TWh). The percentage of the total volume in the clearing house (both continuous market and *clearing*) has been fairly stable compared with the previous year, going from 71% to 69%.

In the gas market (PVB), a volume of approximately 70TWh was negotiated this year, a figure which entails an 82% increase compared to the previous year. In the organized gas market MIBGAS, 13.4 TWh were negotiated, 19% of the volume with respect to 81% of OTC transactions. This is mainly due to the fact that, in 2017, MIBGAS negotiated longer periods than the following month.

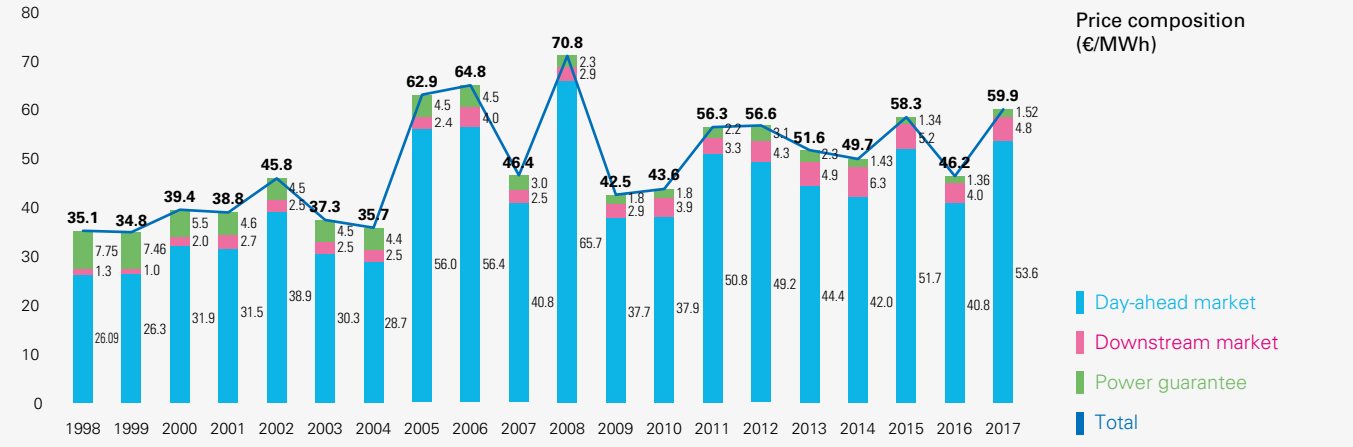
Evolution of the prices in the wholesale market

In 2017, the arithmetic mean of the day-ahead market was 52.24 euros/MWh, compared with 39.66 euros/MWh of the previous year (+31.7%). The average weighted prices were 53.62 euros/MWh in 2017 and 40.82 euros/MWh in 2016.

Since in 2017 overruns for the system added 4.78 euros/MWh to the price of day-ahead market and the capacity payments 1.52 euros/MWh, the price at the end of the financial year was 59.91 euros/MWh.

Average daily price

The year 2017 was characterized by low hydraulic and wind power production. In particular, hydraulic was much lower than the average amounts. This had notable influence on the increase of the mathematical average market price of electricity.



Note: For calculation of the graph units, the revenues of the rest of the markets and power guarantee have been calculated proportional to the energy contracted in OMEL in the day-ahead market.

Net unit revenues of the generation units calculated over contracted energy without including pumping purchases.

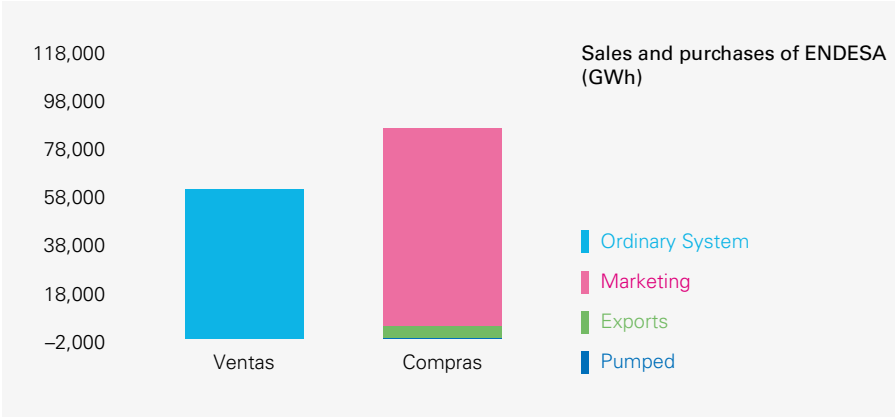
The average price was 52.24 euros MWh, 31.7% higher than in 2016 (39.66 euros MWh), fundamentally due to an increase in the thermal gap of MIBEL and the increase in fuel cost. The thermal gap is the energy which must be supplied by conventional thermal power plants, and it has a very significant influence on market prices since these technologies traditionally set the market price. The MIBEL thermal gap reached approximately 104 TWh, 30% higher than in 2016 (80 TWh), fundamentally due to the reduction of hydraulic (53% lower than in 2016) and wind power production.

The average price for the month of January 2017 recorded the peak for the year, reaching 71.49 €/MWh, due to the confluence of three factors: 1) unavailability of several nuclear power plants in France, which resulted in energy exporting to that country; 2) rise in the market price of gas and 3) low hydraulic and wind power production for the month.

The rest of the year was characterized by stability in the prices concerning the 40-50 €/MWh band, commensurate with the aforesaid low hydraulic and wind power production situation, until the fourth quarter, when the price spiked to levels of 55-60 €/MWh due to the increase in thermal gap as a result of: higher demand, the rise in market price for gas and CO_2 and again, unavailability of the nuclear power plants in France.

Purchases and sales in the wholesale electricity market

In 2017, ENDESA sold 62,005 GWh in the wholesale market, 38% of the total offer of the ordinary regime and imports.



Close to 50% of the total Company sales were made by bilateral contracts and the remaining 50% were sold in the OMEL and REE organised markets.

For energy purchases, ENDESA purchased 87,104 GWh in the wholesale market, of which 94% are allocated to resale and the rest to pumped and exports.

Purchases and sales in the wholesale gas market

For the year 2017, ENDESA purchased a total of 11.6 TWh of gas on the short-term wholesale natural gas market for supply to its customers in Spain and Portugal. During the same period, sales of natural gas in the wholesale market rose to 4.16 TWh.

CO_2 market: approval of ETS reforms

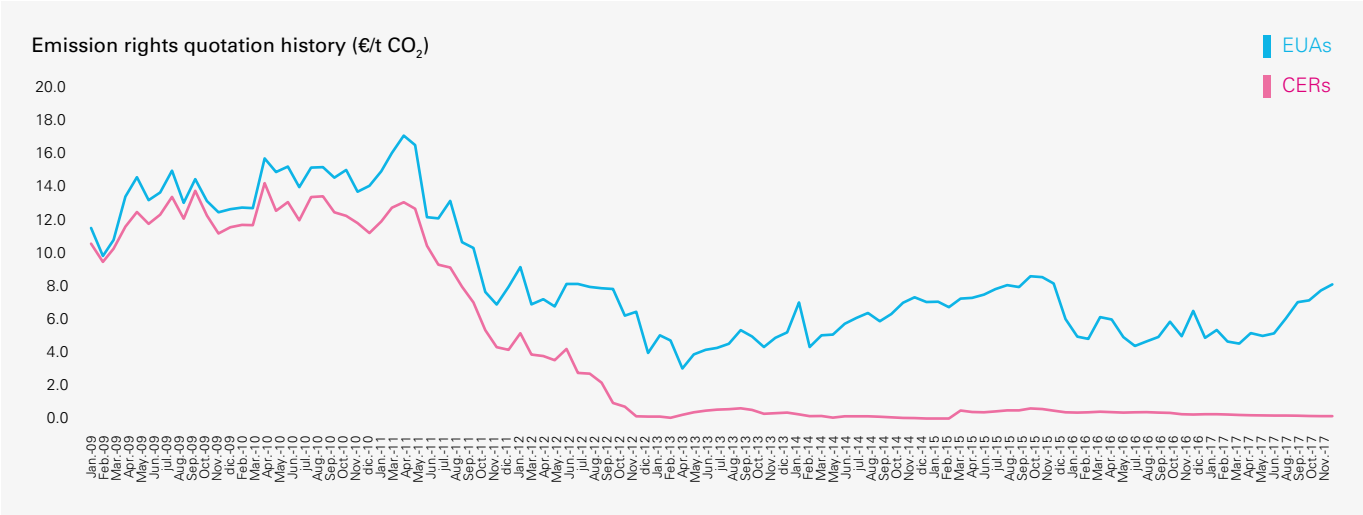
The year 2017 has been a year in which the reforms of the rights market were finally defined and approved for the post-2020 period (phase 4) and the quotation followed an upward trend from 4.5 €/t at the end of May until ending the year above 8 €/t, peaks not reached since 2015, as such measures were being specified and formalized.

The main regulatory advances were as follows:

- On the one hand, the annual conference regarding climate change (COP23) in Bonn (German) had the main objective of preparing the standards for implementation of the Paris Accords on monitoring, reporting and verifying emissions, which are expected to be ratified at the next COP for the following year.
- Regarding the United Kingdom exiting the European Union, on 30 November, the commitment to minimize the negative effects of Brexit on other member countries was unanimously approved by the EU Commission on Climate Change, with the United Kingdom bringing forward the publication of the rights verified in 2018 before its exit from the EU and the possibility of creating a parallel emissions rights market in the United Kingdom was discarded.
- Also in November, the three meetings (Parliament, Council and European Commission) held throughout the year were concluded, in which

the ETS (Emissions Trading System) reforms for the 2021-2030 period were agreed upon. Formal approval in Parliament was planned for the first week in February 2018. This reform was aimed at adjusting the emissions rights offer and was expected to help balance the market. The main new items agreed upon were the increase of the linear reduction factor (LRF) of emissions to 2.2 and to duplicate the rate of withdrawal of rights with the MSR (Market Stability Reserve) from 12% to 24%, which will begin to operate in 2019 and will be carried out over five years.

Additionally, the lack of a clear majority to govern after the September elections in Germany caused the energy reforms planned in that country to play a key role in the later negotiations to form a government, driving measures in favour of a higher rate for renewable energies.



Fuel procurement

The MIBEL thermal gap was 30% above that of 2016 as a result of the reduction in hydraulic and wind power production, which favoured the increase in electrical production at conventional thermal power plants.

In this environment, ENDESA participates with active contracting in the physical and financial wholesale markets.

ENDESA contracted 9.6 million tons of imported coal during the financial year, 8.6% more than in 2016. In liquid fuels, it managed 2.2 million tons, an increase of 1.6% compared to 2016 due to greater electricity demand of the non-mainland systems.

The gas volume managed for own consumption was 1.8 bcm, 83.8% more than 2016, and the volume managed for resale was 7.1 bcm.

Fuel supply to ENDESA

	Total 2017	Total 2016	% Difference
Domestic coal (kt)	2,515	1,134	121.7
Imported coal (kt)	9,634	8,870	8.6
Petroleum coke (kt)	318	862	(63.1)
Liquid fuel (kt)	2,245	2,210	1.6
Natural gas cycles (bcm)	1.8	1.0	83.8
Natural gas resale (bcm)	7.1	6.7	5.1

Note: Includes non-peninsular

Risk management in the electric business

The results of ENDESA's liberalised business are subjected to various risk factors: movements of the price of *commodities* (electricity, gas, coal, CO_2 emission rights) and euro/dollar exchange rate (market risk), potential breaches of the counterparties (credit risk) and changes in regulations and others associated with business operation (operating risk).

The market coverage strategy applied in 2017, as in previous years, considered the commercial sales activity, in which ENDESA sold electricity volumes higher than its own production. This strategy combined term coverage of thermal generation assets to capture

Cristobal Colón (Huelva) Combined cycle thermal power plant

their optional value due to their capacity to provide more production in price increase scenarios and thus minimize the risk, along with energy purchasing programmes in the wholesale markets to cover the resulting positions of marketing of electricity. These strategies manage risk by actions in the forward markets of the different *commodities.*

As for electricity, the gas portfolio risk is managed through a coverage mechanism specific to this business.

Regarding the CO_2 emissions rights markets, management of ENDESA's exposure to these rights is similar to that of other *commodities* that participate in price formation for thermal generation.

The application of the set of coverage and commercial strategies described allows maintaining an adequate risk coverage within the limits established for the markets.

Energy management and participation in European wholesale markets

ENDESA acts in different European electricity wholesale markets to optimise its positions outside of the Iberian market. Among other objectives, this action allows having the necessary energy to supply to its European customers and optimise management of the generation portfolio through the France-Spain interconnection. Likewise, import and export of guarantees of origin and of other renewable energy products to different European countries is maintained, thus optimising management of renewable assets.

In 2017, the spot prices for electricity in Europe recovered compared with 2016 levels. Germany was at 34.19 €/MWh (+5.22 over the previous year) and France at 44.96 €/MWh (+8.22 over the previous year). The same thing occurred in the peripheral markets, the principal cause being the upward trend of coal (and also of crude oil in the second half of the year).

2. Distribution business

ENDESA distributes electricity in 27 Spanish provinces in ten autonomous communities –Catalonia, Andalusia, Balearic Islands, Canary Islands, Aragon, Extremadura, Castile and Leon, Navarre, the Valencian Community and Galicia– covering a total area of 195,279 km^2 and a population close to 22 million inhabitants.

The number of customers with access contracts to the Company's distribution grids increased during 2017 to 0.37%, reaching 12,359,985 customers.

ENDESA supplied 103,154 GWh to the customers of its distribution grids in 2017, this being 2.4% more than in 2016.

The total power distributed via ENDESA's grids reached 117,961 GWh in 2017, measured at the power plant busbars, representing 44% of total Spanish demand. The latter was 268 TWh[1], according to the Spanish electricity system operator.

The regulated revenue of the distribution activity during 2017 amounted to 2,231 million euros, 177 million euros more (+8.6%) than in the 2016 financial year.

[1] REE Report: 'Preview of the Spanish Electrical System Report 2017'.

Development of distribution infrastructures

The length of the lines of ENDESA's distribution grid in Spain was 317,782 kilometres, of which 39.6% were underground lines. Of these, 19,561 kilometres are high voltage networks (> 36kV) installed exclusively on the peninsula. The rest are divided into 117,886 kilometres medium voltage (> 1kV) and 180,335 kilometres of low voltage.

At the close of the financial year year, the number of medium voltage transformer substations was 1,239 with installed power of 86,279 MVA, while the number of medium to low voltage transformation centres was 133,193.

Together with development of these infrastructures, numerous actions were performed aimed at improving supply quality, such as maintenance work, the upgrading and expanding the capacity of existing facilities or an increase in the degree of automation of the HV and MV grids.

Electrical power distribution facilities in Spain and Portugal

	2014	2015	2016	**2017**	% variation 2017-2016
Length of distribution grid lines	314,528	317,675	316,562	317,782	0.4
High-voltage overhead lines (km)	18,849	18,728	18,774	18,791	0.09
Underground high-voltage lines (km)	748	751	765	770	0.65
Medium-voltage overhead lines (km)	77,554	77,567	77,190	77,160	(0.04)
Underground medium-voltage lines (km)	40,324	40,869	40,442	40,726	0.7
Low-voltage overhead lines (km)	94,909	95,763	95,609	95,868	0.27
Underground low voltage lines (km)	82,145	83,997	83,782	84,468	0.82
Substations (number)	1,240	1,237	1,240	1,239	(0.08)
Substations (MVA)	85,783	85,854	86,324	86,279	(0.05)
Transformer centres (number)	131,636	132,307	132,771	133,193	0.32

High voltage power line

Respecting this latter activity, during 2017, the Company's Medium Voltage Network Automation Plan continued being developed, with a total of 42,254 remotely controlled elements at the end of the year and the remote system modernization of the primary substations began, this year resulting in the complete renovation of 73 of them, which expanded its data processing capacity. This fact, together with the increase of data channels connecting them, allows implementation of new remote control systems and high performance complex protection schemes.

As we will see later, this important activity on the network has had a negative short-term effect on the quality of supply. However, it will allow an increase in medium- to long-term network resilience.

Other actions focused on reduction of the networks' environmental impact, committed to fire prevention, protection of animal species or reduction of technical losses.

Finally, different specific plans agreed upon with the different administrations were developed.

From the customer's standpoint, the purpose of ENDESA's Remote Management Project is to implement an automatic remote monitoring and management system for the low voltage electricity supply of domestic customers.

Throughout 2017, ENDESA incorporated low voltage meters into its network, a total of two million new pieces of equipment, by replacement of electromechanical metering equipment or to meet the growth of the customer base. This entails ending the year with 11.2 million electronic and communicable meters installed, 93% of ENDESA's total capacity for supply with a contracted power of up to 15 kW.

Regarding concentrators, over 13,000 were installed during the year, accumulating a total of approximately 134,000, which entails providing some 95% of the medium to low voltage transformer centres, enabling remote and immediate access to the meters installed on the customers' houses and integration into an automatic reading system with the capacity to store hourly readings of all of the low voltage connected customers.

ENDESA is complying with the legal obligations arising from the Decision of the Secretary of State for Energy of 2 June 2015 (PVPC), relating to customers with contract demand up to 15 kW which have a smart meter effectively integrated in the remote management system.

Continuity of supply

Continuity of supply in Spain is measured by two main indicators: the System Average Interruption Duration Index (SAIDI) and the Number of Equivalent Interruptions of the Power Supply (NIEPI). The calculation procedure is regulated by Royal Decree 1955/2000. The SAIDI and NIEPI levels are audited annually by an independent external company.

During 2017, the SAIDI in the markets supplied by ENDESA in Spain stood at about 60 minutes. Dependability of service has stood at 99.99% of hours throughout the year. The SAIDI in 2017 was approximately 1.4.

There was a decline in the quality indices fundamentally due to the important increase in network activity due to the relevant increase of investment activities that the company has undertaken, and on the other hand, the year 2017 has been exceptional with respect to the adverse weather conditions in zones where ENDESA distributes energy. The investment ENDESA planned to make and did make, for example, in network automation and digitalization elements, seeks as one of its objectives, specifically to increase network resilience when faced with adverse weather conditions

Network losses

Regarding network losses, ENDESA is carrying out effective actions to reduce the volume of non-technical losses with the support of multidisciplinary and specialized equipment.

Application of technological advances, with the use and processing of data obtained on a massive scale, automatically from the low and medium voltage networks, together with use of automatic predictive learning models based on Big Data technology, has permitted an important reduction in non-technical losses, which in turn has allowed improving the level of total losses on ENDESA's networks.

The percentage of ENDESA's network losses was reduced in 2017 by 6.3%.

Distribution margin

The distribution margin of the Distribution Segment during the 2017 financial year increased to 2,590 million euros, which entails an increase of 191 million euros (+8.0%) compared with the previous financial year, mainly due to the estimate of income recorded in the heading of remuneration for the distribution activity for the 2017 financial year.

This estimate was done taking into consideration the proposed Ministerial Order, which the Ministry of Energy, Tourism and Digital Agenda began processing, which has resulted in a positive impact of 176 million euros on the income from the period.

The gross operating profit (EBITDA) for the 2017 financial year was 2,050 million euros (+14.7%) and includes, among others:

- The positive evolution of the contribution margin (+8.0%) as a result of the estimate of the income recorded in the heading of remuneration of the distribution activity for the 2017 financial year.
- The reduction in personnel expenses during the 2017 financial year (-20.6%) as a result of the reduction in the average workforce for the Business (-8.8%), the reduction of 57 million euros in provisions for workforce optimization plans and the impact of its updating (2 million euros and 12 million euros, both positive, respectively).
- The containment during the 2017 financial year of other fixed operating expenses (-0.5%) due to quality and efficiency projects in progress.

Operating profit (EBIT) has increased by 322 million euros (+28.5%) respecting the previous financial year mainly as a result of the 14.7% increase in gross operating profit (EBITDA). This evolution also reflects a positive variation of 43 million euros of net provisions for impairment of properties as a result of appraisals carried out by third parties.

3. Marketing business

In 2017, ENDESA supplied electricity market customers with 96.5 TWh, to more than 10.8 supply points, reaching a 35.4% share in terms of energy and maintaining absolute leadership of the sector. The average sale share of the Company in the areas not covered by its distribution grid was higher than 23%.

ENDESA continues to be the second largest operator in the Portuguese liberalised electricity market, with a share of over 16%. By the end of the year, ENDESA had supplied 7.6 TWh to nearly 205,000 supply points.

Commercial Attention Excellence Plan

For ENDESA, excellence in commercial attention is the key value in the relationship with its customers, always seeking maximum efficiency in the functioning of its channels, tools and commercial attention platforms via a process of constant innovation and improvement.

ENDESA has a Commercial Attention Excellence Plan in order to provide its customers with the best possible attention and whose goal is to improve the main customer satisfaction indicators year after year.

During 2017, this plan focused its activities on the following aspects, among others:

- Continuous improvement in the perceived quality by Digital Channels customers and creating a unified experience through all of the channels.
- Improvement of the quality of email, cell phone and postal address data.
- Acting on the two levers with greater impact on the Company's customer satisfaction (periods and steps) over Complaints.
- Residential and Business Complaints: reduce incidence in sales, transform the complaint into an opportunity and reduce resolution times.
- Continuous improvement of First Call Resolution.

In order to ensure compliance with the improvements identified in the Plan, a monthly follow-up is performed on 20 key indicators, enabling verification of the impact on the improvement of ENDESA's commercial quality.

Among the most significant results of the Plan in 2017, the following are of note:

- Significant improvement in customer satisfaction in the non-mass market with management of their marketing area complaints (+30%).
- Clear improvement in customer satisfaction with service at ENDESA's points of service (+2%).
- Significant improvement in customer satisfaction with the e-invoicing service (+8%).
- Permanence in the percentage of customers without detection of errors in the mass customer electricity invoice.

In-person attention

ENDESA's in-person attention is organised according to the customer segment, to better adapt to the requirements of each one:

- **Large Customers and Companies:** ENDESA has a team of agents, organised by sector and territory, via which

	Service points	Commercial offices
Andalusia-Extremadura	88	3
Aragon	24	1
Balearic Islands	17	1
Canary Islands	24	2
Catalonia	63	3
Our own territory	**216**	**10**
Expansion	61	1
Portugal	—	2
ENDESA	**277**	**13**

it seeks to achieve an in-depth knowledge of the customer's needs and to provide personalised, competitive solutions. The Company has approximately 350 personalised commercial agents distributed throughout our territory, and supplements its coverage by means of a helpline and Internet service.

> **General Public:** ENDESA has 11 sales offices in Spain and 2 in Portugal, and 277 service points distributed throughout the country, aided by the Call Centre and ENDESA's virtual office (www.endesaclientes.com).

The call centre

ENDESA's Call e Centre again managed over 18 million calls in 2017 and the volume of interactions remained equal to that of previous years. Within the framework of the activity, growth in contracts that resulted in the Portugal CAT should be noted, a result of the portfolio increase in this market, as well as of outreach campaigns that are being launched to position itself in the country as a benchmark marketer.

Customers that contracted with ENDESA by this means did so 34% of the time due to reasons relating to the commercial cycle, 10% due to issues with unavailability of supply and 6% in order to make changes and management of their contracts. Likewise, 12% of the total call traffic was related to requests for new contracts, preserving the Call Centre as one of the company's main sales channels.

The financial year was marked by two especially relevant projects that had the objective of redesigning and improving the service provided to the Companies segment and the enhancement plan for the first contact solution. Both projects are framed within the Smart Contact Center framework strategy that was promoted during 2016 as a transformation programme for the Telephone Channel service.

The main points to be highlighted for both projects are as follows:

> The evolution of customer service for the Companies segment towards a full front model that will empower the telephone adviser to promote the solution on the first contact.

> Development of personalized customer service models for valued customers that will have a single advisor who will manage the customer's life cycle reactively as well as proactively.

> Digitalisation of telephone service incorporating support elements that reinforce communication with the customer, confirming the realization of requests via sms.

These actions have allowed continued improvement of perceived quality, which again is increased in this financial year throughout all of the lines of service provided from this channel and likewise, form the bases for improving the solution on the first contact, improving the channel in efficiency and quality.

The channel's work during this financial year and the transformation trajectory employed during recent years has received recognition from the contact centre sector at all levels, earning the channel two of the prestigious Contact Enter Awards, such as Best Strategy for Customer Experience for the strategy developed for valued service and as the Best IT Smart Cloud Enterprise Project for the cloud solution to redirect the customer's negative experiences with the service. Also, recognition was received from the Andean Contact Enter Convention as Best Customer Service Strategy within the framework of development of the CAT VIP and the management of dissatisfied customers. On a personal, but no less important level, one of the agents who provides service on the DOIT obtained the Fortius award for Best Customer service Agent in Spain, which sponsors the Association of Customer Relations Experts.

Within this framework, 2017 has been a very positive year for the channel and it continues forming the bases for improving service for our customers in 2018.

On-line service

At the end of 2017, ENDESA's commercial website, www.endesaclientes.com, achieved 1,788,000 registered customers, 18% more than in 2016, with over 2,916,000 contracts and more than 269,000 new registered customers. These users have performed more than two million interactions per month, with bill consultation being the operation most performed both on the website as well as in the app.

During 2017, electronic invoicing has also received a great boost. At year-end, it had 1,766,000 contracts in force with e-invoicing.

The mobile App has been updated, enabling new functionalities for customers, such as fingerprint access, new start-up screen, consumption query and card payment.

Since March 2013, more than 450,000 downloads have been made from ENDESA's app, 150,000 of those in 2017. In 2017, over 53,000 cases were managed on WhatsApp and Facebook.

ENDESA is currently developing a digital transformation process where the customer is positioned as a fundamental element of that transformation.

Sales to liberalised market customers

At 31 December 2017, ENDESA had 5.6 million customers in the liberalised market, a 3.1% increase on numbers at 31 December 2016.

The 5,592,893 customers of ENDESA and their variation with respect to 2016 break down as follows:

- 4,600,951 (+2.1%) in the Spanish peninsular market.
- 786,572 (+5.8%) in the Non-Peninsular Territories market.
- 205,370 (+17.8%) in the European liberalised markets outside of Spain.

In 2017, ENDESA's sales to this group of customers represented an increase of 6.0% compared with the previous financial year.

ENDESA's net sales in 2017 reached a total of 83,594 GWh with a 4.9% increase compared with the 2016 financial year and in economic terms, they amounted to 9,533 million euros (+3.9%) detailed as follows:

- Sales in the Spanish liberalised market were 8,457 million euros in 2017, 244 million euros more than 2016 (+3.0%), mainly due to the increase in physical units sold.
- Revenue for sales to liberalised market customers outside of Spain amounted to 1,076 million euros, 115 million euros (+12.0%) more than the 2016 financial year, also due to an increase in the volume of electricity sold in Germany.

Sales at regulated price

During the financial year 2017 ENDESA sold 12,919 GWh, through its Benchmark Marketer Company, to customers to whom the regulated price applies, 6.5% less than in 2016.

These sales have meant a revenue of 2,460 million euros in 2017, 2.0% higher than in the 2016 financial year as a result of a higher sale price despite the drop in the physical units sold.

The Spanish natural gas market

Natural gas consumption in Spain was 350.9 TWh, a 9.1% increase compared with 2016. Excluding sales for electricity generation (21.6% of the total), the conventional demand of end-customers increased by 5.1% in comparison with 2016.

ENDESA in the natural gas Market

Marketing of gas

ENDESA has sold 79,834 GWh to natural gas market customers in 2017, which involves a 2.2% increase compared to the 2016 financial year.

In economic terms, revenue from gas sales in the 2017 financial year rose to 2,233 million euros, 154 million higher (+7.4%) than in the 2016 financial year, as follows:

- Sales in the liberalised market were 2,150 million euros in 2017, 154 million euros more than 2016 (+7.7%), mainly due to the increase in physical units sold.
- Income from gas sales to regulated price customers rose to 83 million euros, equal to those of the 2016 financial year as a result of the price increase, which compensated for the reduction in physical units sold.

Conventional Market

ENDESA's customer portfolio in the conventional natural gas market on 31 December 2017, excluding sales for electricity generation, was formed by more than 1,559,695 customers, which entails a growth of 1.4% respecting the number of customers on 31 December 2016.

ENDESA is the second gas reseller in Spain with an overall share of over 16% in the conventional market.

In the Portuguese gas market, ENDESA supplied 4.8 TWh to end customers, 30% more than in 2016. In addition, ENDESA continued with its commitment to the marketing of Value Added Products and Services.

Electricity generation market

The sales of natural gas to electricity generation power plants was 21.2 TWh in 2017, which is an increase of 83.8% compared with 2016.

International Market

The sale of natural gas in France, Portugal, Netherlands and Germany reached a volume of 24.5 TWh, 25.9% more than in 2016.

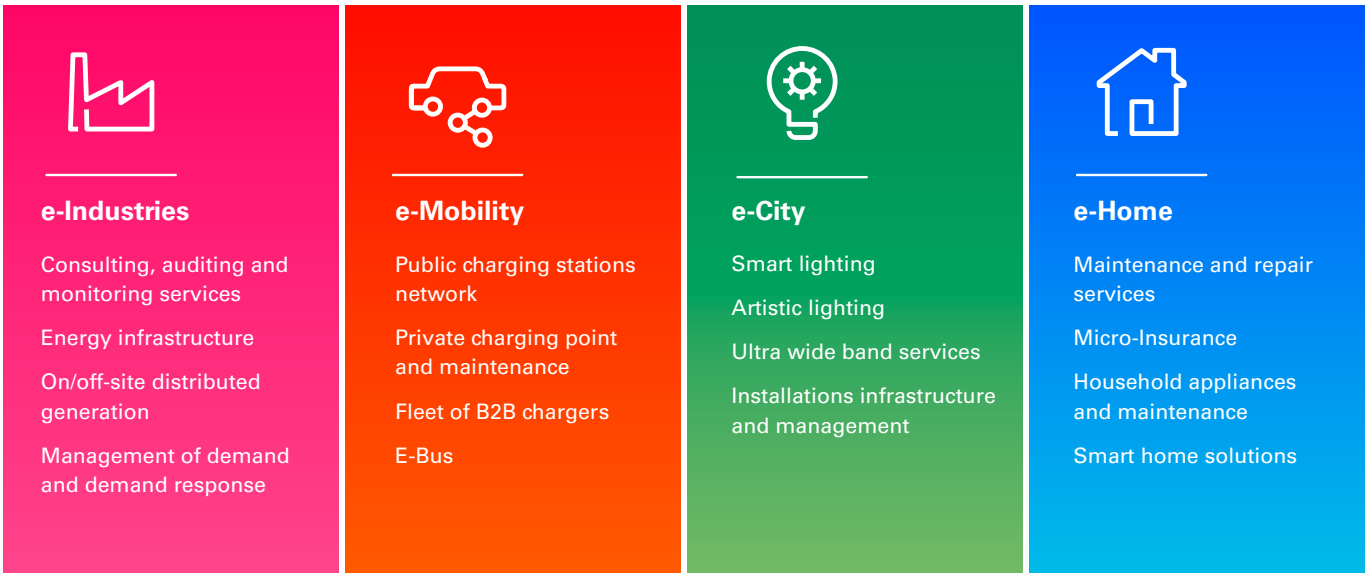
ENDESA's new line of business

ENDESA is aware of the transformation occurring in the energy sector caused by interruption of basic influences for a change of paradigm: 1) appearance of a new customer profile that is more sophisticated and demanding, which demands greater decision-making capacity and control in the management of their energy consumption; and 2) due to technological advances, especially in the field of telecommunications and digitalization.

As a leading company in the energy sector on the Iberian Peninsula, ENDESA aspires to position itself also as a dominant player in this new context. Therefore, during 2017, it created a new line of business.

This new division focuses on ENDESA's positioning as a service provider and placing the customer at the centre of its strategy, developing and marketing an offer of solutions and business models adapted to four lines of activity:

- **e-Home:** Product line focused on marketing of solutions for residential customers, in which the Iberian market is a centre of excellence and a benchmark for the Enel Group. The strategic priority is to maintain good performance in marketing and service provision for maintenance and repair and to drive the growth of the home assistance business, energy equipment and micro-insurance.
- **e-Industries:** Within this scope are grouped the products and services offered to industrial and commercial customers, prioritizing maximization of the potential of the current products portfolio and evolution of the portfolio toward flexibility services and the demand supported on energy platforms.



- **e-City:** Develops solutions for the Public Administration, with growth in Public Lighting and development of new products as the main objectives. From e-City, high-efficiency, minimal environmental impact solutions and solutions for smart cities are sought.
- **e-Mobility:** Groups e-mobility solutions for the residential customer, industrial and commercial customers and the Public Administration. The priority in this scope is the promotion of sustainable e-mobility through private charging solutions and development of public charging networks.

ENDESA's marketing division is positioned as an agent of change in the sustainable energy ecosystem, promoting new opportunities within the scope of e-mobility, management of demand and distributed generation and storage, leveraging in the capacities of the Enel Group through the leading companies recently acquired in these fields (eMotorwerks: Electrical mobility; Enernoc: Demand Flexibility Services; and Demand Energy: Distributed generation and storage management services).

4. Generation and marketing segment margins

The contribution margin of the Generation and Marketing Segment in the 2017 financial year increased to 2,784 million euros, which entails a reduction of 560 million euros (-16.7%) in comparison with the previous financial year, basically as a result of the following aspects:

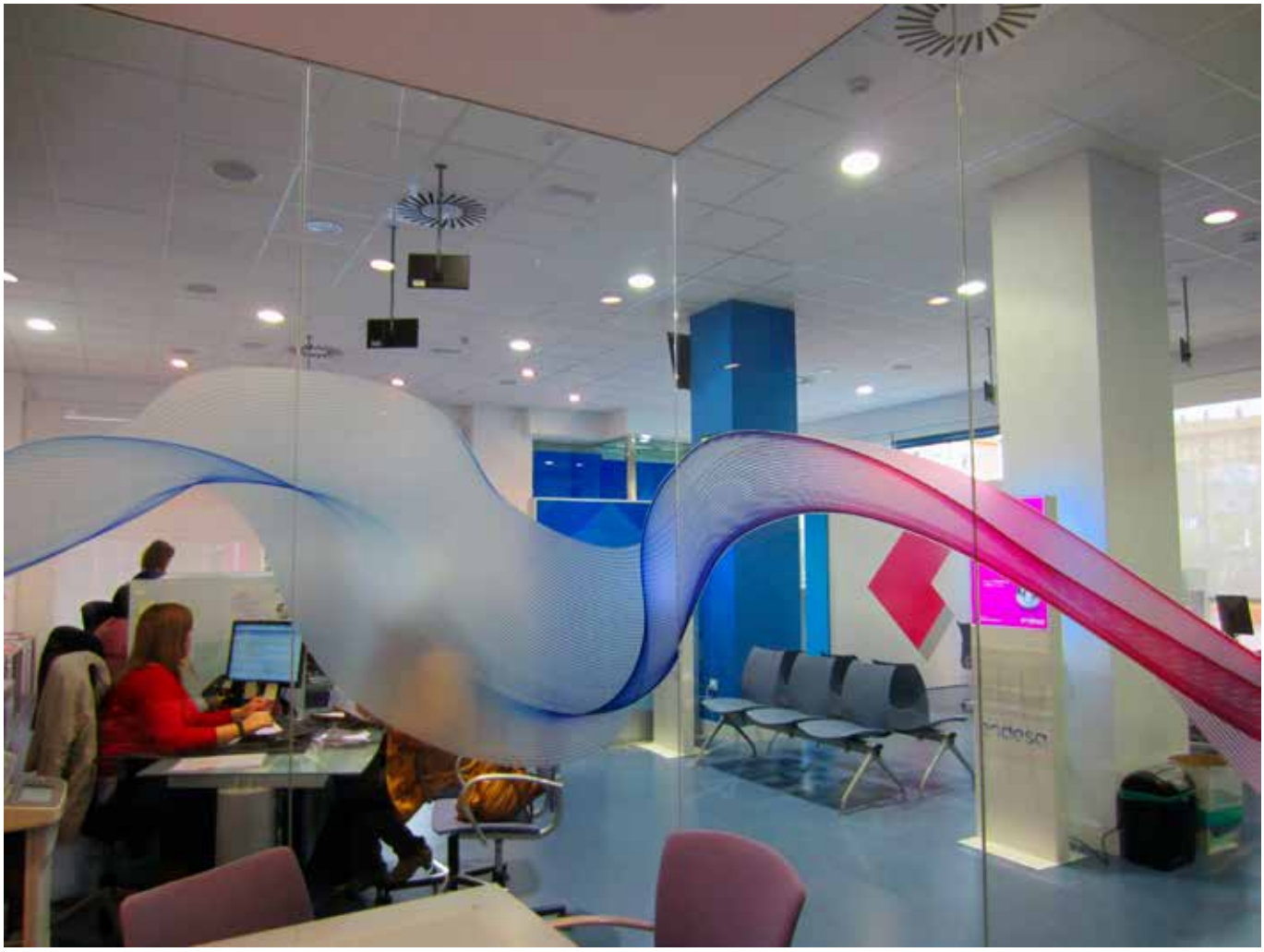
- The contribution margin for the Generation business presented the following characteristics:
  - There was an increase in the price of electricity in the wholesale market (52.2 €/MWh; +31,6%) and the resulting increase in the cost of power purchased (+21.7%).
  - Greater thermal production for the period and higher fuel prices caused an increase in fuel consumption (+38.9%), in the tax on the value of electric power production (83 million euros, of which 11 million euros correspond to ENEL Green Power España, S.L.U. EGPE) and in the emissions rights cost for carbon dioxide emissions (CO_2) (26 million euros).
  - An increase resulted in nuclear taxes on the Autonomous Community of Catalonia (63 million euros) due to the adjustment recorded during the 2016 financial year for the tax then in effect as a result of its being declared unconstitutional.
  - The evolution of valuation and liquidation of derivatives, mainly of gas, has resulted in a reduction in expenses for energy materials derivatives (86 million euros), partially compensated by a reduction in income for this same item (175 million euros).
  - The effect of the incorporation of ENEL Green Power España, S.L.U. (EGPE) amounting to 256 million euros (104 million euros in the 2016 financial year from the date of assuming control).

- The gross operating profit (EBITDA) for the 2017 financial year for this segment was 1,350 million euros (-27.0%). To analyse the evolution during the 2017 financial year, the following must be taken into consideration:
  - 16.7% reduction in the contribution margin.
  - Provisions recorded during the financial years 2017 and 2016, in the form of voluntary retirement agreements, for an amount of 5 million euros and 74 million euros, respectively.

– The evolution of the updating of provisions for workforce reduction plans and positive contract suspension agreements in both fiscal years in the amount of ten million euros and three million euros, respectively.
– The effect of the incorporation of ENEL Green Power España, S.L.U. (EGPE) in the amount of 181 million euros and 75 million euros, respectively.

> Operating profit (EBIT) for the 2017 financial year from the Generation and Marketing Segment was 488 million euros (-54.2%) and includes, among others:

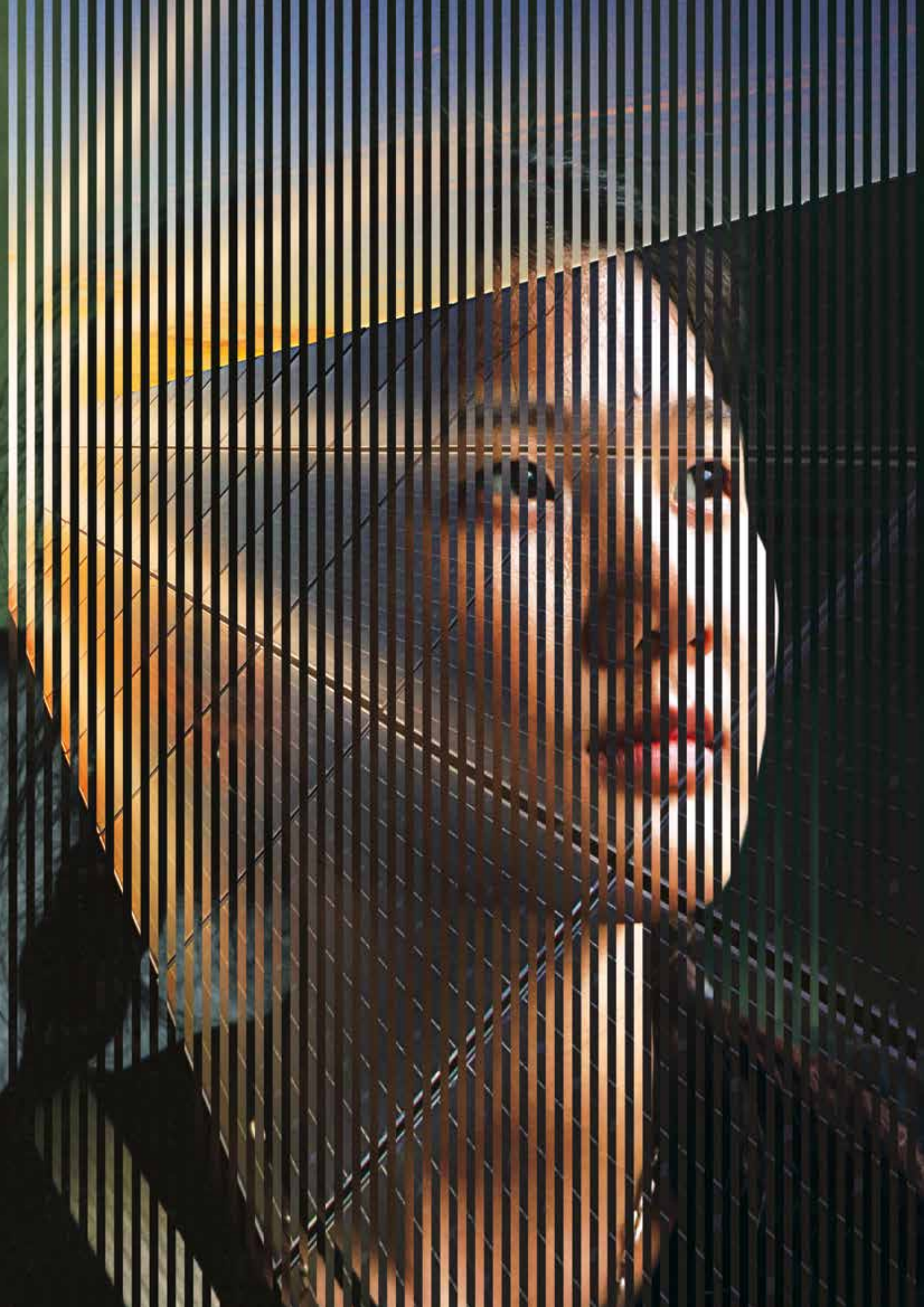
– 27.0% reduction in gross operating profit (EBITDA).
– The reduction of 76 million euros in amortisation expenses resulting from the modification of the estimate of useful lives of the hydraulic, wind power and photovoltaic power plants.
– The contribution from consolidation of the incorporation of ENEL Green Power España, S.L.U. (EGPE) amounting to euros 74 million euros, including the effect of the change in useful life of the renewables plants mentioned in the above paragraph (16 million euros during the 2016 financial year from the date it assumed control on 27 July 2016).
– The increase of 59 million euros in the net provision for impairment of commercial insolvencies provision.



ENDESA's Commercial Office

07

Internal control systems



1. Internal control systems

1.1. Board of Directors

The Board of Directors shall perform its duties with unity of purpose and independent judgement, and monitor that the Company treats all shareholders in the same position equally and that it is guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value. In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but shall strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and in sustainable development.

The Board of Directors is the highest management body representing the Company, in compliance with the Law and its By-laws.

The Board of Directors, to whom full powers for the management, administration and representation of the Company correspond, as a general rule will entrust the ordinary management of the Company to the delegate administration bodies and will concentrate its activity on general supervisory functions and the consideration of matters of particular significance to the Company and its group of companies.

Likewise, the Board shall be responsible for establishing the bases for appropriate and efficient coordination between the Company and the companies belonging to the company group of which the Company is the controlling entity pursuant to Law, in all cases respecting the autonomy of decision of its management bodies and officers in compliance with the corporate interest of the Company and each of the aforesaid companies.

1.2. Audit and Compliance Committee

The Regulations of ENDESA's Audit and Compliance Committee stipulate that the main task of the Committee is to promote good corporate governance and ensure the transparency of all ENDESA's actions in economic and financial areas and in relation to external audit, compliance and internal audit. The committee is entrusted with supervising the preparation and presentation of regulatory financial information and monitoring the efficacy of ENDESA's internal control system and risk management systems, as well as discussing with the auditors or audit firms any significant weaknesses detected in the internal control system during the course of the audit work. The committee also supervises the internal audit services, ensuring the independence and effectiveness of the Internal Audit function, proposing the selection, appointment, re-election and removal of the head of Internal Auditing, receiving regular reports on activities, and verifying that Senior Management is acting on the findings and recommendations of its reports. Audit and Compliance Committee members are appointed in the light of their knowledge and experience of accounting, auditing or risk management.

1.3. Transparency Committee

In 2004, ENDESA set up a Transparency Committee chaired by the Chief Executive Officer, composed of its senior executives including all members of the Executive Management Committee and other members of ENDESA's management directly involved in the preparation, certification and disclosure of financial information. This Committee's main purpose is to ensure compliance with and the correct application of general financial reporting principles (confidentiality, transparency, consistency and responsibility) by evaluating the events, transactions, reports and other matters of relevance disclosed and determining the manner and deadlines for making these disclosures. Likewise, the duties of the Transparency Committee also include assessing the findings submitted to it by ENDESA's Department of Administration, Finance and Control, based on the report prepared by ENDESA's Internal Control unit on compliance with and effectiveness of the internal controls over financial reporting and the internal controls and procedures concerning disclosure of information abroad, taking corrective and/or preventive actions and reporting to the Board's Audit and Compliance Committee in this regard.

1.4. Internal Control Unit

ENDESA's Department of Administration, Finance and Control has an Internal Control Unit, the functions of which are as follows:

- Communicating approval of internal control over financial reporting policies and procedures to ENDESA's various subsidiaries and business units.
- Maintaining, updating and furnishing the company's internal control over financial reporting model and the documentation associated with processes and controls.
- Defining the flows for certifying the evaluation of the effectiveness of the controls and procedures defined in the Internal Control over Financial Reporting Model.
- Overseeing compliance with internal control over financial reporting and the internal disclosure controls and procedures, presenting periodic reports on its conclusions with respect to the system's effectiveness.

All matters relating to internal control over financial reporting and the disclosure of financial information abroad are regulated by the internal procedures, the purpose of which is to establish the operating principles and responsible bodies for the establishment and maintenance of internal controls over financial reporting and for internal controls of and procedures of disclosure of financial information abroad in order to ensure their reliability and to guarantee that reports, events, transactions and other material developments are disclosed in an appropriate manner and time frame. The Internal Control over Financial Reporting system is evaluated and certified every six months.

ENDESA has the following documents in connection with internal regulations concerning ethics and prevention of crimes:

Code of Ethics

ENDESA has a Board-endorsed Code of Ethics which itemises the ethical commitments and duties to which the professionals working for ENDESA and its subsidiaries, be they Directors or staff, no matter their positions, are bound in the course of managing these companies' business and corporate activities.

The Code of Ethics is formed by:

1. The General Principles governing relations with stakeholders that define ENDESA's benchmark business values.
2. The standards of conduct for dealing with all groups of stakeholders, enshrining the specific guidelines and rules which ENDESA professionals must adhere to in order to uphold the general principles and avoid unethical behaviour.
3. The mechanisms of implementation, which describe the organisational structure around the Code of Ethics responsible for supervising correct knowledge, understanding and compliance with it by all employees.

The principles and provisions of the ENDESA Code of Ethics must be respected and complied with by all members of the Board of Directors, the Audit and Compliance Committee and control bodies of ENDESA and its subsidiaries, in addition to the executives, employees and collaborators linked to ENDESA due to contractual relations of any type, even occasional or temporary.

The General Principles set down in the Code of Ethics include 'Transparency and integrity of information' which establishes that 'ENDESA's collaborators must provide full, transparent, understandable and accurate information, so that, when establishing relations with the company, those involved can take autonomous and conscientious decisions of the interests at play, of the alternatives and of the relevant consequences'.

Zero Tolerance Plan Against Corruption

The Board-approved Zero Tolerance Plan Against Corruption requires all ENDESA employees to be honest, transparent and fair in the performance of their work. The same commitments are expected of its other stakeholders, i.e. people, groups and institutions that help ENDESA meet its objectives or that are involved in the activities it performs in order to achieve them.

In compliance with the tenth principle of the Global Compact, of which ENDESA is a signatory, 'Businesses are committed to fight corruption in all its forms, including extortion and bribery',

ENDESA expressly rejects all forms of corruption, direct and indirect, and to this end it has a programme to fight against it.

Legal Risk Prevention Model

ENDESA's Criminal Risk Prevention Model, in place since 1 January 2012, is a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the company, complying with the Spanish Criminal Code on the criminal liability of legal persons. According to current legislation, the adoption of an appropriate and efficient prevention model, the operation and supervision of which have been entrusted to a Company body with independent powers of initiative and control, could exempt the Company from criminal liability with regard to a criminal offence. The following protocols, which establish general criteria for action in different areas, form part of ENDESA's crime prevention model:

1. Protocol for action to be taken concerning conflicts of interests.
2. Exclusive dedication and commercial presence.
3. Protocol for accepting and offering presents, gifts and favours.
4. Protocol for action to be taken concerning public officials and authorities.

The Ethics Code and the Zero Tolerance to Corruption Plan are available on the Company's website: https://www.endesa.com/es/inversores/a201611-conduct-aeticapt.html

Whistle-blowing channel

ENDESA has had an Ethics Channel in place since 2005. This is accessible via its corporate website and Intranet, so that all stakeholders can report, securely and anonymously, any irregular, unethical or illegal conduct which has, in their opinion, occurred in the course of ENDESA's activities.

The procedure established for the use of the channel guarantees confidentiality as it is managed by an independent, external company, which handles all complaints or communications.

In addition to the Channel, complaints are received through other channels, always addressed to the Audit Department, in accordance with ENDESA's internal procedures. This Department is responsible for guaranteeing the correct handling of the complaints received, acting with independent criteria and action with respect to the other organisation units. It has access to all the Company documents necessary for the exercise of its functions and monitors the implementation of the recommendations included in the auditing reports.

Furthermore, the Audit Department is a body assigned to the Board of Directors through its Audit and Compliance Committee, that centralises and channels significant claims and takes them to the Board.

During 2017, ENDESA received, either via the Ethics channel or via other means, a total of ten claims. The investigation of nine of these was concluded during the same year. Among the claims received, one case of non-compliance with the Ethics Code was verified, related to conflicts of interest. In that case, the corrective measures were applied. None of the claims received was related to cases of discrimination.

ENDESA's whistle-blowing channel can be accessed at https://secure.ethicspoint.eu/domain/media/es/gui/102504/index.html.

2. Risk management

The Risk Management and Control Policy, approved by the ENDESA, S.A. Board of Directors, seeks to guide and direct the set of strategic, organisational and operational actions that allow the Board of Directors to accurately delimit the acceptable risk level, with the aim that the managers of the different business lines can maximise profitability for the Company, preserve or increase its equity and own funds and the certainty in its achievement above certain levels, preventing uncertain and future events from negatively influencing the attainment of the profitability targets set by the Company.

The Risk Management and Control Policy defines ENDESA's Risk Control System as an interlinked system of standards, processes, controls and information systems, where the global risk is defined as the risk resulting from consolidation of all risks it is exposed to, considering the mitigation effects between their different exposures and categories, allows the consolidation of exposure to risk of the Company business units and areas and their assessment, as well as preparation of the relevant management information for decision making in terms of risk and suitable use of capital.

The body responsible for execution of the Risk Management and Control Policy is the ENDESA Risks Committee, which is based on the internal procedures of the different business and corporate areas and is supervised by the Audit and Compliance Committee of ENDESA's Board of Directors. It is formed by the responsible parties of each of the Company's business lines and corporate areas. It has the following functions:

- Periodically provide the Board of Directors with an overview of the exposure to current and foreseeable risk.

Cordoba Control Centre Office

- Ensure that Senior Management participates in strategic risk management and control decisions.
- Guarantee coordination between the risk management units and units responsible for its control and compliance with the risk management and control policy and its associated internal procedures.
- Ensure the good operation of the risk management and control systems and, in particular, that all important risks regarding their management are identified, managed and suitably quantified.
- Actively participate in the risk strategy preparation and in the important decisions regarding its management.
- Supervise that the risk management and control systems mitigate the risks suitably within the framework of the Risk Management and Control Policy.

The general guidelines of the Risk Management and Control Policy are developed and completed with other corporate risk policies, specific for each business line, in addition to the limits established for optimum risk management.

The Risk Management and Control Process obeys a model based, on the one hand, on the permanent study of the risk profile, applying the best current practices in the energy or reference sector in risk management, on homogeneity criteria of measurements in the separation between managers and risk *controllers* and, on the other hand, on guaranteeing the connection between the risk assumed and the necessary resources to operate the businesses always respecting appropriate balance between risk assumed and the targets set by the Board of Directors of ENDESA, S.A.

The Risk Management Cycle is the set of activities related to identification, measurement, control and management of the different risks incurred and is aimed at the existence of a suitable risk control and management system:

- **Identification.** The objective of risk identification is to maintain a prioritised and updated repository of all risks assumed by the corporation through the coordinated and efficient participation of all Company levels.
- **Measurement.** The purpose of measuring parameters that allow for the aggregation and comparison of risks is to obtain an overall quantification of the exposure to assumed risk, including all of ENDESA's positions.
- **Control.** The purpose of risk control is to ensure that risks assumed by ENDESA are in line with the objectives ultimately set by the Board of Directors of ENDESA, S.A.
- **Management.** The purpose of risk management is to execute the actions directed toward the adaptation of the levels of risk assumed at each level of the Company, and toward the established risk tolerance and predisposition.

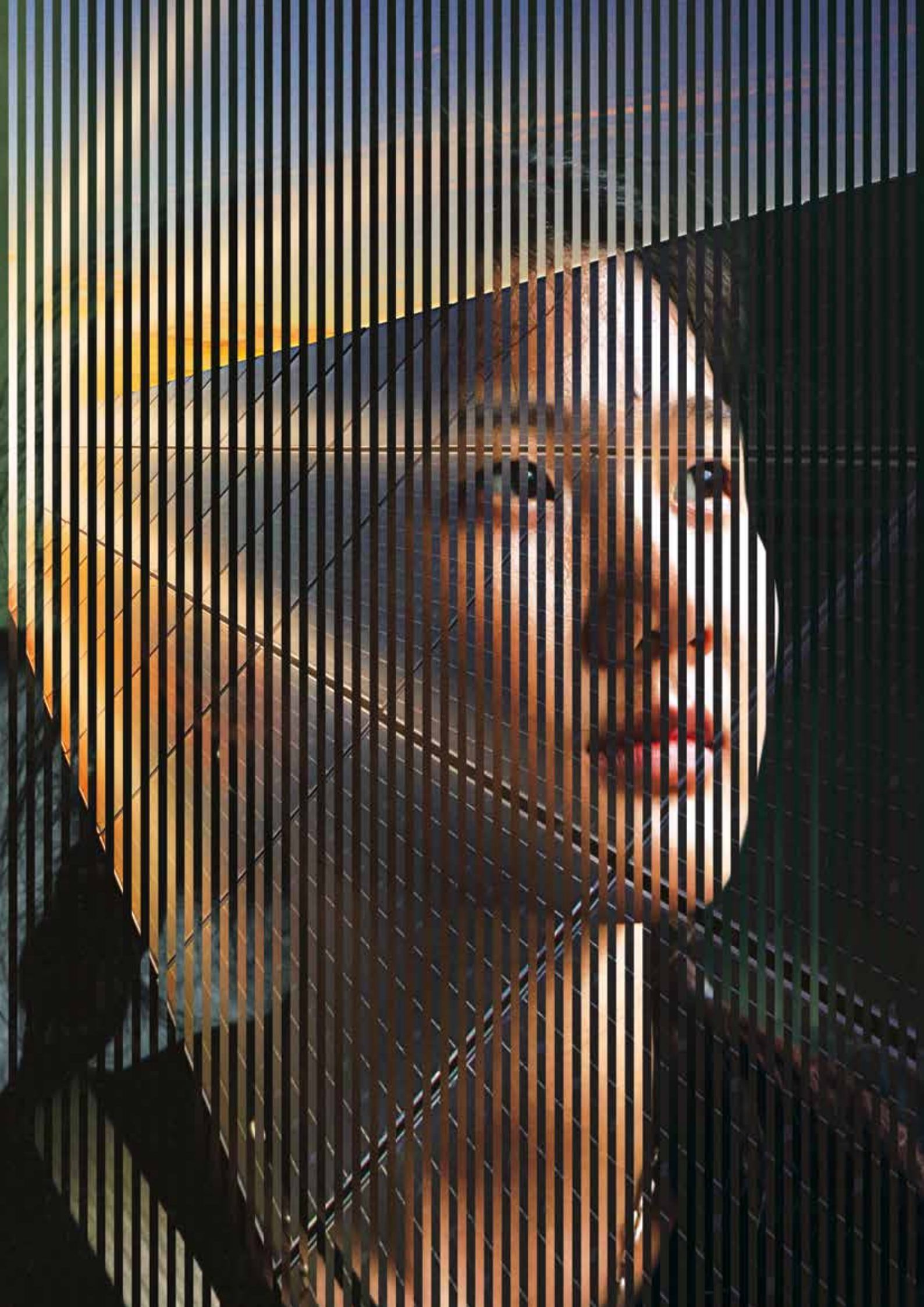
By means of this process, it is intended to achieve an integral view of the risk, oriented toward risk assessment and prioritisation. It covers the main financial and non-financial risks that ENDESA is exposed to, both endogenous (external factors) and exogenous (internal factors), being shown in an annual map that includes the main risks characterised and quantified and establishing periodical revisions.

Additionally, faced with the increased interest in management and control of the risks that the company is exposed to and given the complexity its identification is taking on from an integral perspective, the participation of employees at all levels in this process is important. Hence, a risk mailbox has been created where employees can contribute to identifying market risks and propose mitigation measures, thus complementing the *top-down* systems of management and control of existing risks and the mailboxes and specific procedure for sending communications related to ethical breaches, criminal risks and occupational health and safety.

Complementing the above, ENDESA, S.A.'s Board of Directors has also approved a Tax Risks Management and Control Policy that seeks to guide and direct the set of strategic, organisational and operational actions that allow the Board of Directors to accurately delimit the acceptable level of tax risk, with the aim that the tax risk managers consign, compared to tax risks, the objectives set by the Risks Management and Control Policy. The Tax Risks Management and Control Policy is a documented and specific embodiment in tax issues of the Tax Strategy approved by ENDESA, S.A.'s Board of Directors.

08

Sustainability



1. ENDESA's commitment to Sustainability

ENDESA understands that, in order to guarantee maximum profitability to our shareholders in the medium- and long-term, it is vital to incorporate social, environmental and ethical aspects into our strategy and business deployment in a manner that forms the axis on which we develop our activity.

This firm commitment to sustainability was further consolidated by approval of the Sustainability Policy by the Board of Directors on 21 December 2015. This policy constitutes the guidelines and basis of ENDESA's behaviour in the management of its business activity, and compliance with these is expressly driven by Company Management, concerns its employees, contractors and suppliers, and is open to assessment by third parties.

The Board of Directors, via the Audit and Compliance Committee, supervises the correct implementation of the principles of the policy throughout the Company's entire value chain. The implementation of this policy is developed from ENDESA's Sustainability Plans, which are reviewed annually.

2. ENDESA's contribution to the United Nations Sustainable Development Goals

The corporate sector, being an agent for economic, social and environmental progress, has been identified as a key player for the attainment of the 17 United Nations Sustainable Development Goals, thus acknowledging that development will not be achieved without the active participation of the sector.

ENDESA is firmly committed to the new United Nations Sustainable Development Agenda and acknowledges the historic opportunity represented by the Sustainable Development Goals and the involvement of the private sector to overcome the main challenges facing society, from the struggle against climate change to the eradication of poverty, and economic and social progress.

In this context, ENDESA assumes the commitment of the Enel Group with the United Nations Sustainable Development Goals in order to contribute specifically to 4 of the17 Sustainable Development Goals.

The Group's public commitments enel to the United Nations SDGs

13 CLIMATE ACTION

Struggle against climate change
< 350 gCO_2/kWh in 2020

7

Affordable access and non-polluting[1]
3 million people

4 QUALITY EDUCATION

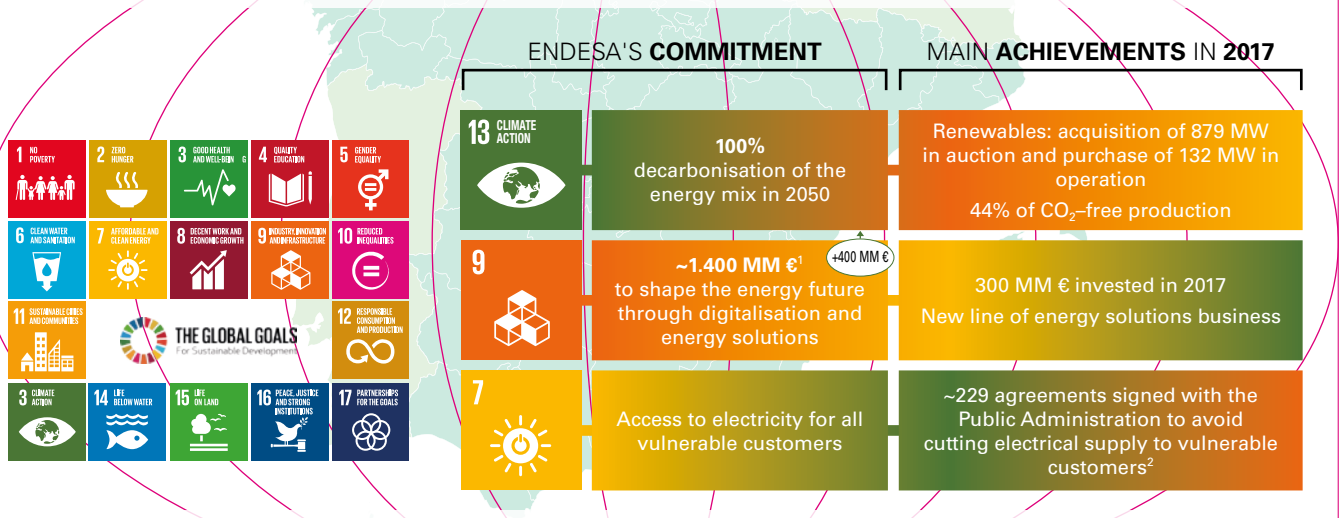
Quality education
800,000 people

8 DECENT WORK AND ECONOMIC GROWTH

Decent work and economic growth
3 million people

[1] Accumulated in the 2015-2020 period.

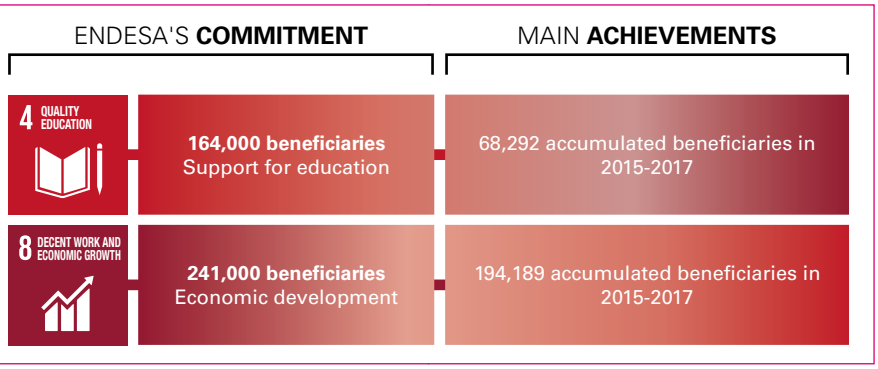
Contribution endesa to the United Nations Sustainable Development Goals



[1] This commitment has been updated according to the new Strategic Plan for 2018-2020 and refers to the period from 2017-2020.
[2] In review to adapt them to the new Royal Decree 897/2017, of 6 October, which regulates the status of vulnerable consumer, the subsidised rate and other measures of protection for domestic consumers of electric power.

ENDESA takes these commitments and adapts them to the context in which it operates. Thus, since it announced its specific contribution to the 2030 Agenda in 2016, the company has continued progressing with respect to its commitment to three goals that directly impact its own business model.

Likewise, ENDESA also contributes to the commitments achieved by its parent company, the Enel Group, with regard to SDG 4 and SDG 8 through its social projects and its Foundation. However, although these are the priority SDGs for ENDESA and therefore those with a greater focus in the coming years, it also concentrates on others of the 17 Goals.



3. The strategic planning of Sustainability

3.1. Main sustainability risks

ENDESA is exposed to certain risks that it manages through the application of 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 which the company faces are taken into account. These aspects are integrated into the company's risk management and control system and are supervised by the Audit and Compliance Committee of the Board of Directors.

During 2017, ENDESA updated the identification of emerging sustainability risks with medium- and long-term impact related to some of the dimensions comprising sustainability. To that effect, ENDESA used the identification of global risks prepared by the World Economic Forum as a reference from a consultation with almost 1,000 experts on the perception of global risks. This map has been adjusted to the context of ENDESA's operation, thus allowing identification of the most relevant sustainability risks.

A Climate change (mitigation and adaptation)
B Extreme weather phenomena and environmental catastrophes
C Cybersecurity risks
D Terrorism
E Social inequality and instability
F Risks to water resources
G Large scale involuntary immigration
H Loss of Biodiversity

3.2. The identification of priority issues

In order to integrate the expectations of the stakeholder groups in a structured manner, and in line with the company purpose, each year ENDESA performs a process of identification of priority issues, assessing and selecting the economic, ethical, environmental and social issues which are relevant to the stakeholders and which are part of the company's strategic priorities.

The results obtained in this process contribute to strategic business planning and to the design of ENDESA's sustainability plans and likewise, they also determine the content of the Sustainability Report and contribute to the effective management of stakeholders and their expectations.

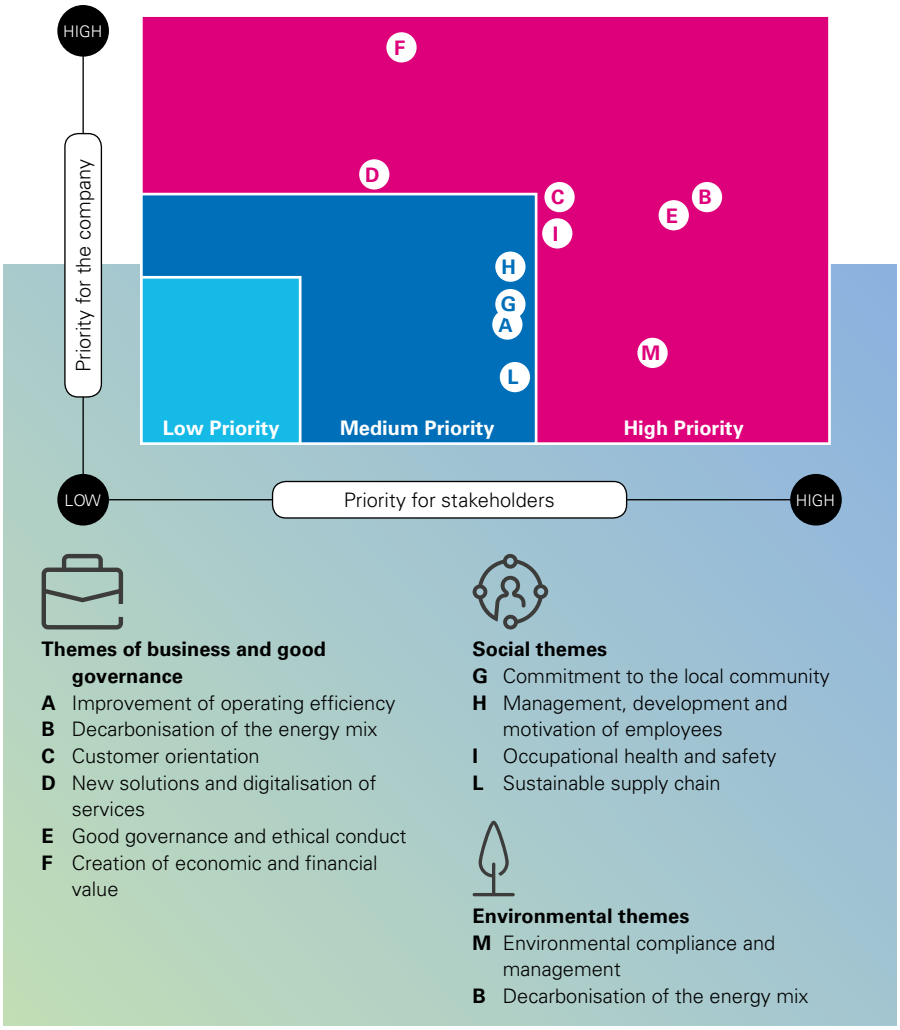
For the execution of the process, ENDESA implements the methodology developed by the Enel Group for all its companies, which is in line with the international AA 1000 APS standard. The aim of this standard is to guide the organisation in the strategic management of interaction with its stakeholders by complying with a set of principles, after the correct identification of the latter (Principle of Inclusivity), the prioritisation of these issues which require attention from the company (Principle of Rele-

vance), and the design of the responses (Principle of Ability to Respond) to the expectations which create greatest value for ENDESA and for the community to which it provides services.

In 2017, ENDESA performed a materiality study that has served as the basis for definition of the priorities of its 2018-2020 Sustainability Plan. Thus, in 2017, almost 4,000 sources and representatives from 18 different stakeholders were consulted directly and indirectly.

The combination among the variables analysed in the materiality study performed, in other words, the relevance that the different sustainability subjects have in the business strategy and the level of priority that the stakeholders give to such subjects, are expressed in the following matrix:

For more information, see ENDESA's *2017 Sustainability Report* pages 70 to 82.



3.3. Compliance with ENDESA's 2017-2019 Sustainability Plan

The 2017-2019 ENDESA Sustainability Plan, focused on creating long-term economic value through fostering a sustainable and responsible business model, has established four strategic priorities: decarbonisation of the energy mix; digitalisation of assets, customers and persons; focus on the customer; and operational efficiency and innovation. Likewise, to guarantee a high level of excellence in responsible business management, six strategic pillars were identified, transversal to all company activities: integrity, commitment to local communities, human capital, occupational health and safety, environmental sustainability, and supply chain.

Through more than 100 quantitative management objectives, ENDESA has responded to each of the strategic pillars and priorities defined in the 2017-2019 Sustainability Plan, achieving overall compliance higher than 93%.

For more information see ENDESA's *Sustainability Report* pages 86 to 89.

3.4. ENDESA's new 2018-2020 Sustainability Plan

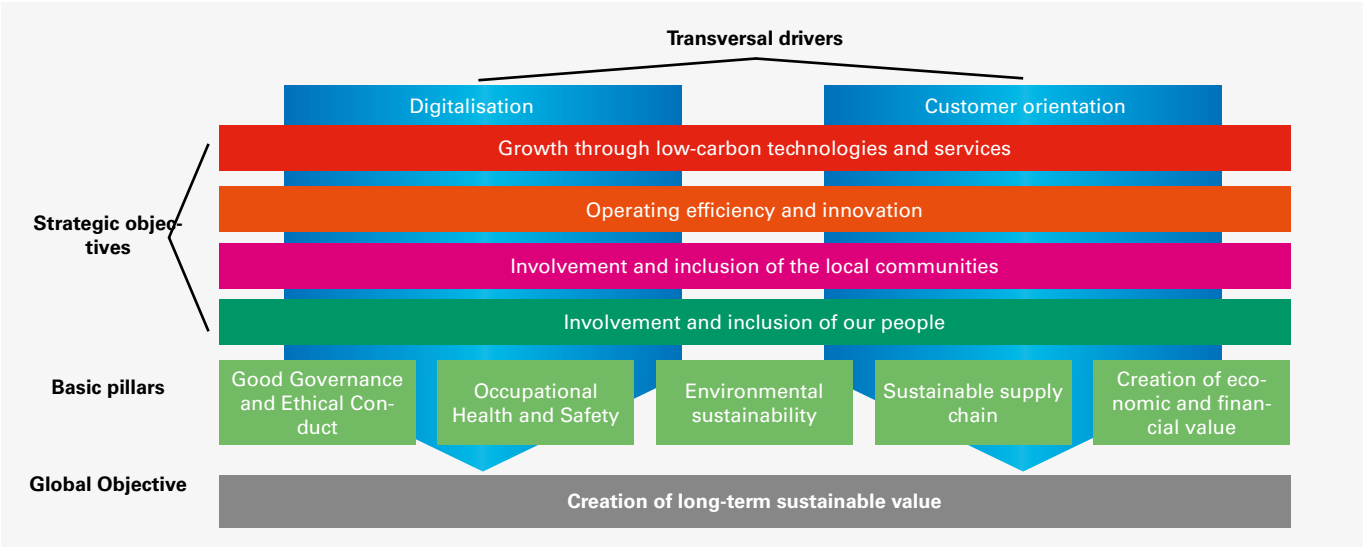
In order to achieve the integration of sustainability into business management and decision-making processes, there must be maximum alignment between business strategy and sustainability, in such a way that both are oriented toward the attainment of the same objective and use feedback to achieve this, thus generating short- and long-term economic value for the Company. On 22 November 2017, ENDESA presented the update of the Strategic Plan for the 2018-2020 period.

At the same time, and in order to achieve the maximum alignment between the sustainability and business strategies, ENDESA carried out a process of analysis, consultation and strategic reflection for the design of its new 2018-2020 Sustainability Plan, using as a basis the achievements and opportunities for improvement identified in the previous Plan. This process has enabled the identification of the priorities for action for the next three years.

As was the case with the previous plan, the new 2018-2020 Sustainability Plan also defines ENDESA's contribution to the United Nations Sustainable Development Goals. This framework represents the basis of the sustainability plan and acts as a benchmark to establish a sustainability strategy that generates long-term value both for the company and for the society it serves. The new 2018-2020 Sustainability Plan seeks to promote long-term sustainable value creation, setting the following strategic priorities and defining over 100 quantitative management objectives:

Strategic objectives

- **Growth through low-carbon technologies and services:** The new Sustainability Plan establishes the roadmap to make ENDESA a CO_2 emission-free company in 2050.
- **Operating Efficiency and Innovation:** The Sustainability Plan includes courses of action directed at promoting efficiency and quality in the management of generation and distribution assets as well as relating to the promotion of sustainable mobility of the employees in their transfers for occupational and personal reasons. Likewise, through focus on open innovation, the Sustainability Plan includes lines of action oriented toward promoting the attraction of external talent and exploring new cooperation pathways for the development of new business solutions to further sustainability.
- **Involvement and inclusion of the local communities:** From a viewpoint of creating shared value, ENDESA promotes the integration of sustainability throughout the company's value chain,



and seeks to combine its interests with the priorities and requirements of stakeholders at a local level.

- **Involvement and inclusion of our people:** The new Sustainability Plan includes objectives that will continue to promote the level of satisfaction of its employees, diversity and inclusion, the development of talent and reconciliation between professional and personal life.

Transversal drivers

- **Digitalisation**: Action will be taken on three main fronts: the digitalisation of the company's assets, the development of a digital culture within the Company and the digitalisation of the customer and of the way ENDESA relates with them. Likewise, special attention is given to cybersecurity

- **Customer orientation:** The Sustainability Plan includes investment and growth objectives in the development of new products and services, which promote a more sustainable energy model. Furthermore, the Sustainability Plan pays special attention to maintaining a high level of excellence in its relationship with customers and in the quality of the service provided.

Basic pillars for responsible management

- **Good Governance and Ethical Conduct:** Maintain a high level of excellence in compliance with its commitments and ethical responsibilities, the implementation of good corporate governance practices and the furtherance of transparency in its relationship and communications with all its stakeholders.
- **Occupational Health and Safety**: Guidelines to reduce the accident rate among employees and contractors as well as to promote appropriate safety control.
- **Environmental Sustainability:** Reducing the Company's environmental footprint and promoting biodiversity conservation.
- **Sustainable Supply Chain:** Increasing the control and supervision systems for the supply chain in accordance with environmental, safety and human rights criteria.

More information on pages 90 to 94 of *ENDESA's Sustainability Report.*

3.5. ENDESA's performance in sustainability

3.5.1. Low-carbon business model

Always up-to-date with intense international negotiations, ENDESA aligns its corporate strategy with the global commitments and objectives currently planned in the struggle against climate change.

ENDESA's new 2018-2020 Strategic Plan is based on the current energy paradigm and takes into account the transition period in which we find ourselves. Among ENDESA's strategic pillars to lead the transformation are the following:

- Decarbonisation of the energy mix for 2050 through an ambitious emissions reduction plan.
- Promotion of renewable energies with an investment of over 900 million euros by 2020.
- A smooth transition toward decarbonisation, guaranteeing the security of the supply and avoiding inefficient investments in fossil fuels.

The Company is aware that the road to an efficient and sustainable energy model will be possible thanks to a greater presence in the renewable energies generation mix and electrification of transportation.

The Company updates ENDESA's Sustainability Plan annually, reacting to changes that occur in climate and energy policies and renewing its reduction objectives as a result, always with the idea of going the extra mile and meeting the challenge of putting the brakes on climate change.

ENDESA works at the highest level in compliance with its emission-reduction targets. The Executive Management Committee is the body responsible for defining and promoting policies and the objectives of the fight against climate change, and including them in the company's decision-making.

For more information see pages 98 to 117 of *ENDESA's Sustainability Report.*

3.5.2. Digitalisation

The digital transformation of a company is the process whose purpose is to transform it into an organisation totally tuned into the digital ecosystem, focused on the customer in an intelligent, agile manner. It is a process requiring significant change management, to successfully tackle the challenge of incorporating new digital technologies.

ENDESA is highly conscious of the new reality and the opportunities that it poses and therefore, the digital transformation was an essential part of its 2017-2019 sustainability plan, investing over 270 million euros in 2017. Again, digitalisation continues to occupy a prominent place in the new 2018-2020 Sustainability Plan, in which the company plans to invest over 1,000 million euros, approaching it from a triple perspective: customer, people and assets.

Regarding asset digitalisation, within the scope of generation, during 2017, it has continued with the development of different generation plant pilot projects in order to evaluate the possible benefits that introduction of the digital technology could have on ENDESA's generation facilities. From the results that are being obtained in these pilot projects, a very ambitious digitalisation plan is being prepared for the purpose of implementing it in the coming years.

Regarding digitalisation of the distribution grid, ENDESA has carried out a total of two million meter replacements throughout 2017, with an accumulated figure of 11.2 million, meeting the goal established in ENDESA's 2017-2019 Sustainability Plan. This translates to 93% of meters with contract power of up to 15 kW.

Regarding customer digitalisation, in 2017 ENDESA had 3.8 million customers and 2.1 contracts with e-invoicing. Likewise, 68.5% of management was done via digital channels and 9% of the sales were digital.

As for digitalisation of our people, ENDESA develops it from digitalisation of the work environment and digitalisation of digital skills.

For more information, see pages 119 to 136 of *ENDESA's Sustainability Report.*

3.5.3. Customer orientation

ENDESA considers it a priority to guarantee access to the electricity supply, and also its continuity, safety, efficiency and quality; therefore, the development of the necessary infrastructures to achieve this is of the utmost importance.

For ENDESA, excellence in customer service is the main value in its relationship with its customers, always seeking maximum efficiency in the operation of its customer service channels, tools and platforms through a constant innovation and improvement process.

ENDESA has a Customer Service Excellence Plan, with the purpose of offering its customers the best possible service. It aims to improve the main satisfaction indicators year after year.

During 2017, this plan focused its activities on the following aspects, among others:

- Continuous improvement in quality perceived by Digital Channels customers and creating a unified experience through all of the channels.
- Improvement of the quality of email, cell phone and postal address data.
- Acting on the two levers with the greatest impact on the Company's customer satisfaction (periods and steps) with Complaints.
- R and N Complaints: reduce incidence in sales, transform the complaint into an opportunity and reduce resolution times.
- Continuous improvement of First Call Resolution.

In order to ensure compliance with the improvements identified in the Plan, a monthly follow-up is performed on 20 key indicators, enabling verification of the impact on the improvement of ENDESA's commercial quality.

Among the most significant results of the Plan in 2017, the following are of note:

- Significant improvement in customer satisfaction in the non-mass market with management of their marketing area complaints (+30%).
- Clear improvement in customer satisfaction with service at ENDESA's points of service (+2%).
- Significant improvement in customer satisfaction with e-invoicing service (+8%).
- Permanence in the percentage of customers without detection of errors in the mass customer electricity invoice.

ENDESA is very conscious of the transformation that is taking place in the energy sector at the worldwide level, driven by among other reasons, the following:

- The appearance of a new customer profile that is more sophisticated and demanding, which demands greater

decision-making capacity and control in the management of their energy consumption.

- Technological advances, especially in the area of telecommunications and digitisation.

ENDESA, as the leading company in the energy sector on the Iberian Peninsula, aspires to position itself actively in this new context. Therefore, during 2017, it has created a new business line of e-Solutions, which is committed to innovation and development of new products and services such as engines for adapting to the environmental needs and strengthening the use of efficient technologies to facilitate energy savings and reduce environmental impact.

Updating of the 2018-2020 Strategic Plan reflects this leadership drive and strengthens ENDESA's position as an all-around energy service provider through strategic priorities for each of the four product lines in which it carries out e-Solutions business activity: e-Home, e-Industries, e-City and e-Mobility.

With these priorities, ENDESA is in the position of an agent for change in the new sustainable energy ecosystem, promoting new opportunities in the field of electrical mobility, management of demand and distributed generation and storage.

Within the scope of new business models for medium and large-sized companies (B2B) as well as public administrations (B2G), ENDESA strengthens its position as an Energy Services Company and it proposes to its customers to invest in improving their installations and managing them integrally.

During 2017 ENDESA has continued to develop, its portfolio of Comprehensive Solutions projects. Under this 'Comprehensive Solution' concept ENDESA gives small consumers the possibility of using energy efficient equipment in their home (boilers, heaters, water tanks, air conditioning equipment), covering everything from installation of the equipment to preventive and/or corrective maintenance.

In 2017, the launch of the Electric Vehicle Comprehensive Solution stands out, which allows installation, maintenance, warranty and financing of the charging point.

For more information, see pages 139 to 157 of *ENDESA's Sustainability Report.*

3.5.4. Innovation

ENDESA strives for an open innovation model that opens the company to outside players to promote collaboration and exchange of ideas to optimise their efforts. Open innovation is a new relationship model for companies with external key players (universities, *start-ups,* research centres, other companies of the same or different sectors, etc.) that promotes collaboration and exchange of knowledge.

ENDESA has adopted this model to maximise its capacities through collaboration with the most relevant players of the innovative ecosystem that contribute to the growth and creation of new business opportunities.

ENDESA seeks disruptive solutions from the technology standpoint, new business models and improvement of our own business processes.

For more information, see pages 159 to 174 of *ENDESA's Sustainability Report.*

3.5.5. Responsible relationship with the communities

ENDESA's commitment to development of the communities in which it operates is outlined in the company's Creation of Shared Value Policy, which establishes the general principles, roles, responsibilities and procedures to follow for definition, implementation, financing, monitoring and reporting of the actions, processes and projects of a corporate nature throughout the company's entire value chain and all business lines and functions. Its objective is to legitimise the business and guarantee is sustainability, putting down roots in the communities and promoting progress.

The Creation of Shared Value Model pursues incorporating Sustainability into the Company's strategy, increasing competitive advantages through contributing to a perspective that unites the company's objectives with the priorities of the stakeholders.

Currently, the 'Creation of Shared Value' Model has been implemented in 47 of ENDESA's facilities or projects, which are in different phases of development. Of them, 15 pertain to thermal generation facilities, 31 to renewable generation facilities and lastly, one to the infrastructure and grids area.

In 2017, and according to LBG methodology, ENDESA has provided 13.8 million euros in social investment allocated to the communities in the areas where it operates, of which 11.3 million are monetary contributions or in kind.

Likewise, in 2017, the number of beneficiaries of the actions carried out by ENDESA to facilitate access to energy

In 2017, ENDESA organised the first Tour of Spain in an electric vehicle

was 401,141 people. Further, the number of beneficiaries of support for education projects developed by ENDESA was 32,676 people.

For more information, see pages 177 to 201 of *ENDESA's Sustainability Report*.

Further, ENDESA contributes to the commitments set by Enel Group with respect to the UN Sustainable Development Goals for the 2015-2020 period:

- 0.8 million beneficiaries in access to energy projects, which will contribute to the goal of 3 million people established by the Enel Group.
- 190,000 beneficiaries in social-economic development activities, aligned with the target of 3 million beneficiaries of the Enel Group.
- 68,000 beneficiaries in education promoting actions, which will contribute to the target of 800,000 people the Enel Group has committed to.

3.5.5.1. Projects

3.5.5.1.1. Access to energy projects

One of ENDESA's main approaches in social development is the development of projects in line with the company's core business, with initiatives to favour access to energy.

This type of initiatives, furthermore, responds to the commitment of ENDESA and our parent company, the Enel Group, to the UN Sustainable Development Goals in section 7 of 'Affordable and clean energy'.

In 2017, and according to LBG methodology, ENDESA has invested more than 4.6 million euros in social projects in this area, with the management of 38 initiatives which have benefited more than 401,000 people. The most relevant are:

- **Agreements signed against energy poverty.** Since 2015, ENDESA has addressed a line of action that responds to this social problem. The Company

has been pioneering in signing agreements with town councils, provincial councils, autonomous communities and public bodies to guarantee the supply to vulnerable families, suitably accredited by the social services and who are in a default situation. In 2017, the number of agreements in force has increased 38%, going from 166 in 2016 to 229 in 2017. Thanks to this, some 74,784 contracts have benefited from these actions since its inception, favourably managing about 282,000 bills. Furthermore, thanks to the agreements reached throughout Spanish geography, ENDESA can cover in this regard more than 10 million homes from 26 Spanish provinces.

- **Energy volunteering.** Social Projects in the energy field initiated in 2015, promoted by ENDESA and the ENDESA Foundation, directed at homes in which there is an energy poverty situation, with action at two levels. On the one hand, recommendations are given to these families to optimise their electric bill and to lower their energy consumption and on the other hand, risk situations are identified in the electrical facilities that are later corrected by certified installers. The initiative has the participation of ENDESA employees. During 2017, the programme was implemented in five territories: Zaragoza, Barcelona, Seville, Puerto del Rosario (Fuerteventura) and Candelaria (Tenerife), with a total of 108 volunteers and 122 families participating, which can be translated into over 300 beneficiaries.
- **Energy poverty social innovation programme.** Created in 2015 by the NGO Ashoka and the Schneider Electric Foundation, the programme has the objective of searching for creative solutions that facilitate access to energy and allow improvement of the living conditions of persons with fewer resources. In 2017, a second edition of this programme was collaborated on by both the Enel Group as well as ENDESA, seeking to identify, involve and support between 15 and 20 organizations that address energy poverty in Spain, Portugal, Italy, Greece and Germany and that propose social initiatives with innovative solutions to help communities affected by this problem.
- **Training technicians for social services and third sector entities.** With ENDESA's participation, the Environmental Sciences Association and the European Anti-Poverty and Social Exclusion Network for the Spanish State was designed and contributed a programme of training courses aimed at workers from corporate entities that could better carry out their counselling work and support families in a vulnerable situation (in efficient energy consumption habits and invoice optimisation). In 2017, some 100 institutions participated, which are estimated to facilitate counselling to some 17,000 people in energy poverty per year.

3.5.5.1.2. Projects for social-economic development of communities

This includes non-energy-related projects for the furtherance of employment, generation of infrastructures, transfer of abilities and skills and support for local business activities. In 2017, the Company has invested about 3.5 million euros in this type of initiatives, representing 30% of social investment with the management of 32 projects that have benefited approximately 121,000 people. Some examples:

- **Candelaria Youth Training.** The Candelaria Council and ENDESA, together with the Spanish Red Cross, signed a socio-labour integration agreement in March 2017 for the residents in the municipality, through a combination of educational, socio-educational, occupational and job training activities to further their job and social skills.
- **Junior enterprise.** The ENDESA Foundation joined Youth Business International in 2016. The aim was to enable the creation of 300 new businesses and 500 jobs by training 1,188 young people in a three-year period.

3.5.5.1.3. Local community support projects

ENDESA gives support to local communities through various types of projects that have the aim of improving the well-being of people and communities, maintaining their cultural identity, conservation of their heritage, improvement of the environment and local biodiversity, sports, the promotion of healthy habits and the support of coverage of basic needs.

To carry out these actions, ENDESA bases itself on the knowledge and sensitivity of each local reality and collaborates with the main social organisations in the environment where it operates, getting support from the territorial units. In 2017, it is the axis of action with the highest investment, with 47% of the budget corresponding to more than 5.3 million euros, 96 projects managed and more than 436,000 beneficiaries. Some examples are:

- **Promoting of STEM studies in young women.** ENDESA collaborated in the development of the educational programme Orienta-T along with the Junior Achievement Foundation and other companies. The participation of 954 students and 79 teachers was achieved in the Compulsory Secondary Education educational and Secondary School Certificate stages for 29 educational centres in the cities of Madrid, Valencia, Avilés, Barcelona and Las Palmas de Gran Canarias.
- **Resource collection campaigns and assistance to disadvantaged groups.** Collection of funds and food in collaboration with different NGOs. By way of example, the initiative in the Canary Islands is of note, in which 5,174 kg of non-perishable food and 1,088 toys were collected, thanks to the solidarity of all of ENDESA's employees in the islands.
- **Projects to attend to people with disabilities.** ENDESA and the ENDESA Foundation collaborate with different associations and foundations which have the aim of supporting people with physical or intellectual disabilities and their families. For example, collaboration with the Seville Autism Association or the special Sant Just Desvern Territory project in Catalonia is worth noting, the national and international level sports event for athletes with intellectual disabilities that is intended to become a benchmark sports movement adapted as a social integration path.
- **Environmental and Biodiversity Projects.** Projects that, on a voluntary basis with regard to the company, encourage the disclosure, preservation, recycling, regeneration and improvement of the environment in general and of biodiversity in particular, for the preservation and improvement of community environments. In 2017, ENDESA has allocated 7% of the total of its social investment to these projects. Noteworthy initiatives include those that report on environmental and biodiversity issues, bird life and other species protection programs and the regeneration of natural spaces. In total, these programs received an investment of 745,000 euros from ENDESA.

For more information, see pages 190 to 195 of *ENDESA's Sustainability Report.*

3.5.6. Our people

ENDESA continually seeks to identify and develop people's potential so that their performance can contribute to making the Company a benchmark in the sector. In this light, talent management ensures the development of people based on recognition of merit and contribution.

ENDESA has continued with different professional development actions it has been rolling out in recent years. We can highlight the individual 'knowledge' interviews of people, *coaching, mentoring,* consulting for team development, *job shadowing,* workshops for skills development, *onboarding* programmes, business knowledge seminars and definition of succession plans.

ENDESA establishes its Training Plan for the purpose of providing people with the qualification that they need to perform their duties and development of personal and professional attitudes and aptitudes. This Plan is centred on achievement of the Company's strategic objectives and on promoting its values of responsibility, innovation, proactivity and confidence.

ENDESA promotes gender equality in all areas of the Company, with special attention on positions of responsibility and personnel hiring, both objectives included in the ENDESA 2017-2021 Sustainability Plan. Thus, the female hiring figure reached 34.54% in 2017. Respecting positions of responsibility, the percentage of responsible posts (officers) held by women in 2017 remained at 16.4%.

For more information, see pages 203 to 229 of *ENDESA's Sustainability Report.*

On the other hand, ENDESA considers Occupational Safety and Health to be a priority objective and a fundamental value to be upheld at all times for all people who work for the Company, without distinction between own staff and its collaborating companies. The integration of this objective in ENDESA's strategy is based on implementing Occupational Safety and Health policies, the implementation of specific work plans and the application of a single and global work conduct observation system.

During 2017, ENDESA has given a total of 106,096 hours of occupational health

and safety training to its own employees. 3,390 people have attended occupational safety and health training courses. During 2017, 74,180 safety inspections have been performed in works and/or projects performed carried out by both the Company's own and contractors' employees, which had a significant impact on reducing the number of work-related accidents. Likewise, in 2017, 300 *Safety Walks* were held.

Thanks to all of the work and effort carried out by ENDESA regarding occupational health and safety, ENDESA has achieved a significant reduction in the accident rate in 2017 compared to 2016.

- In 2017, the combined accident frequency index (employees and contractors) was 0.75, which means a 25.46% decrease compared to 2016 and exceeds the goal established for 2017 (1.19).
- The combined number of accidents (employees and contractors) was reduced by 25.57%.
- ENDESA is sad to report that in 2017, there was a fatal accident involving one of its own personnel. Among the contractor personnel, there were no fatal accidents.
- In 2017, the absenteeism index was 2.60, a figure slightly higher than 2016 (2.59).
- The number of days missed in 2017 was 56,494, clearly lower than the 2016 figure (79,936).

ENDESA promotes reduction of the accident rate and in this context, it has established the goal of zero fatal accidents for the 2018-2020 period.

For more information, see pages 230 to 235 of *ENDESA's Sustainability Report*.

3.5.7. Environmental Sustainability

For ENDESA, sustainable development is an essential pillar of its strategy, including the protection of the environment as one of its most important commitments. This attitude is a sign of positive and differential identity for the Company, since it is an essential principle of behaviour that is expressly set down in its corporate values.

Therefore, ENDESA has established the target of reducing its environmental footprint in 2020 by more than 38% compared to 2017. To achieve this, the following targets have been set:

- 35% reduction of specific CO_2 emissions in 2020, compared with 2005.
- 47% reduction of specific SO_2 emissions in 2020, compared with 2017.
- 13% reduction of specific NO_x emissions in 2020, compared with 2017.
- Keep specific particle emissions below 0.03 g/kWh during the 2018-2020 period.
- 17% reduction in water consumption in 2020, compared with 2017.
- Keep the waste production in generation activity below 45,000 tons in 2020.
- Reuse of combustion products from the coal power plants (ash, slag and gypsum) above 22% in 2020.

ENDESA makes a significant effort to achieve excellence in environmental management. Thus, during 2017, ENDESA's activities in environmental activities have meant an increase of 1.9%, compared to 2016, which has contributed to an increase in accumulated investment of 7.2% in 2017.

ENDESA is committed to achieving excellence in the environmental management of its business activity through the value chain. Therefore, 100% of the electricity generated and distributed by ENDESA in 2017 was certified by the International Standard ISO 14001.

ENDESA has a stringent supervision system for all its emissions to control the characteristics and volumes emitted. The Company complies with the parameters required by applicable regulations, implements technologies to minimise emissions and designs and applies corrective measures of the impacts generated. Thus, in 2017, ENDESA has reduced specific SO_2 emissions from 0.88 g/kWh in 2016 to 0.77 g/kWh in 2017 and for NO_x, from 1.19 g/kWh in 2016 to 1.07 g/kWh in 2017.

Integrated water management is one of ENDESA's greatest concerns. The main lines of action in this area focus on efficient consumption, water quality by controlling discharges and waste water, and reservoir management, assessing the ecological potential to provide shelter for birdlife, the possibilities to control invasive species and prevent the existence of dried up sections of regulated rivers. Specific water consumption for electricity generation in 2017 has been 840 m^3/GWh, thus improving on the target set for 2017 of 940 m^3/GWh.

ENDESA has waste management and reduction systems in place, which are continually reviewed in order to identify ways to make improvements and promote them. Of the total waste produced by ENDESA

in 2017, a significant portion of the waste was recovered at its external facilities, with 88% of total non-hazardous waste in Spain and Portugal and 42% of hazardous waste being recovered in the same geographical area of Spain and Portugal.

ENDESA's biodiversity conservation plan provides a structure that enables selecting and appraising, firstly, and under criteria of scientific, social and applied all the initiatives received, both internal and external, regarding biodiversity. The Biodiversity Conservation plan has ended 2017 with a total of 25 activities under way. ENDESA's corporate website includes information on I ENDESA's most relevant projects in terms of study, management and conservation of biodiversity:

https://www.endesa.com/es/sostenibilidad/a201610-conservacion-biodiversidad.html

For more information, see pages 237 to 277 of *ENDESA's Sustainability Report.*

ENDESA's sponsorship of basketball

3.5.8. Responsible management of the supply chain

In order to promote responsible management in the supply chain, ENDESA has an integrated procurement process, which requires suppliers to be rated following sustainability criteria (environmental, social, ethical, integrity, human rights) in addition to technical and economic criteria, before the tender process and contract formalisation. Finally, once the service has been provided, its compliance and performance level shall be assessed in said provision.

Through the Supplier Rating System, it is established whether a supplier meets the requirements to work with ENDESA. This system specifically assesses the activities considered most relevant, among other aspects, the supplier's level of compliance in terms of sustainability according to previously defined criteria in terms of the risk associated with the group of purchases to which the supplier belongs:

- Assessment of compliance with Human Rights standards.
- Assessment of compliance with Environmental standards.
- Assessment of compliance with Occupational Health and Safety standards.

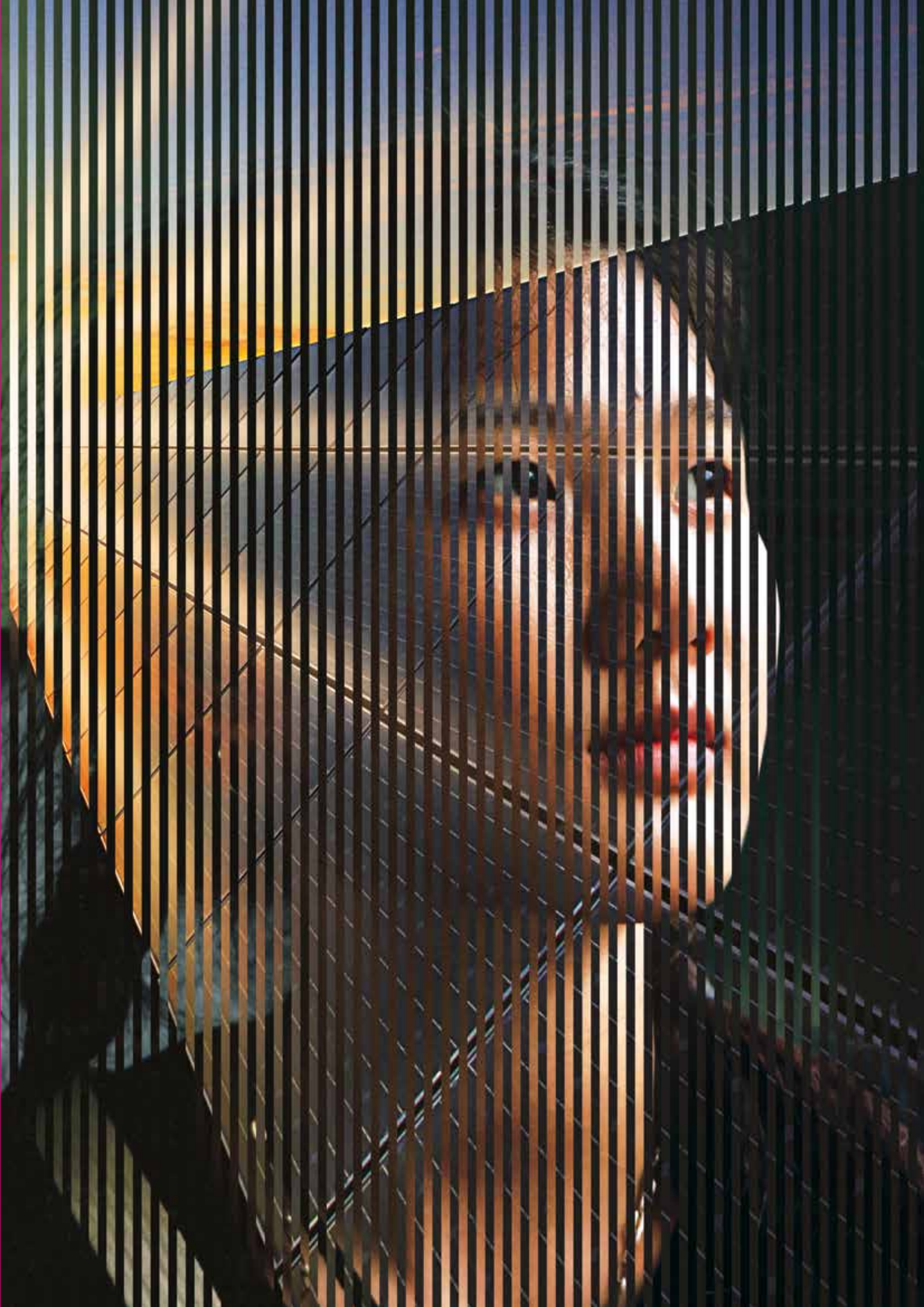
Further, as part of the sustainability requirements regarding the environment and safety, the need to hold the corresponding certifications for management systems on these matters according to the ISO 14001 and OHSAS 18001 standards for activities designated as high risk was established.

At the end of 2017, the Supplier Rating System was implemented in 181 purchase families, 118 Global families (international rating) and 63 local families in ENDESA.

For more information, see pages 284 to 297 of *ENDESA's 2017 Sustainability Report.*

09

Research, technological development and innovation



1. ENDESA and research, technology and innovation activities

Open innovation is the innovation management model that opens the company to external agents such as universities, research centres, startups, and other companies to promote collaboration and exchange of ideas.

At Endesa, we have adopted this open model to find quality ideas that help us to grow. Our purpose, when entering this new culture, is to develop innovative solutions capable of transforming the current energy model.

During 2017, we have continued to develop our open innovation platform ENDESA Energy Challenges (endesaenergychallenges. com) with new challenges launched to the world innovation community, in search of new energy-efficient products and services. It aims to challenge the most brilliant minds to look for solutions that enable us to create the energy model for the future.

The most outstanding challenge of the platform in 2017 was:

BLOCKCHAIN LAB is the laboratory of ideas where we seek the best proposals and business models, using blockchain technology in applications related to the world of power, in order to jointly develop new solutions to change the world http://endesaenergychallenges.com/blockchain/

1.1. Culture of innovation

ENDESA encourages the creation of a culture of innovation among its employees, through different programs and initiatives that channel and make innovation available to the entire Company.

During 2017, in coordination with Enel, the unit **Enel Idea Hub Spain**, an internal unit intended to promote creativity and intrapreneurship in the Company was established.

Some of the most outstanding projects during the year are as follows:

ENEL INNOVATION WORLD CUP is a program to identify new business models aimed at employees and promoted by Enel Innovation Holding. Here, in-house teams can propose development projects of disruptive business models, having the opportunity of developing the initiative generated.

90 MINUTES OF INNOVATION is an initiative for internal diffusion whose purpose is to bring new technological trends closer to our Company's employees via meetings focused on innovation. Two editions were held in 2017 at which matters such as artificial intelligence and robotics were discussed.

http://endesaenergychallenges.com/es/90-minutes/

MY BEST FAILURE is a digital platform enabling the Enel group's employees to share our cases of 'constructive failure' as a means of learning, contributing to the creation of a culture unafraid of making mistakes, fostering experimentation and the capacity of taking risks within the organisation.

OPEN INNOVABILITY is the Enel Group's new platform for launching innovation and sustainability, both for the Group's employees as well as the entire global innovation community.

23,98
million euros invested in innovation

1.2. ENDESA and entrepreneurs

ENDESA has a considerable interest in working with entrepreneurs and start-ups due to their capacity for disruptive innovation, the use they make of technology, their know-how and particularly their dexterity in developing products and services and placing them on the market in the shortest time possible.

In 2017, in coordination with Enel Innovation Holding, ENEL INNOVATION HUB SPAIN was opened in Madrid, which is part of the Innovation Hubs network located in relevant entrepreneurship centres and strategic markets for the Group around the world: Brazil, Chile, Spain, Israel, Italy, Russia and Silicon Valley.

The Enel Innovation Hub Spain has the responsibility of continuing to develop the relationship, not only with the enterprise ecosystems of Spain and Portugal, markets in which ENDESA is present, but also with other relevant European ecosystems, to research European startups that could respond to the Business Lines challenges and companies of the Enel Group and to develop the relationship with the startups, specifically those startups of interest to the Group.

The Enel Innovation Hub Spain is located in The Cube in Madrid, an entrepreneurship centre focused on the Internet of Things, in which various players in the ecosystem converge.

Our focus is on the entire energy value chain: conventional and renewable generation, infrastructures and networks, value added products and services for residential customers, SME'S, companies and large clients, digitalisation of the company, the relationship with our customers and trading, in addition to new vectors, such as electrical mobility.

We seek disruptive solutions from the technology standpoint, new business models and improvement of our own business processes.

Additionally, as part of the ENDESA Energy Challenges platform, we have access to the ENERGY FOR ENTREPRENEURS programme as a direct contact channel through which proposals are directly received from both *startups* as well as individual entrepreneurs.(http://endesaenergychallenges.com/es/entrepreneurs/)

We also took part in initiatives and events for the furtherance of innovation and support for entrepreneurs, such as Spain Start Up: The South Summit – the largest entrepreneurship fair in southern Europe – among other events.

As a result of this work, the Enel Group closed 2017 with over 100 projects in development with startups, of which 30 are in the commercial launch phase. Over half of the startups in this phase, not only from Spain but also from other European countries and Israel, have collaboration agreements with ENDESA.

1.3. Technological projects

The following projects stand out for energy efficiency technologies development:

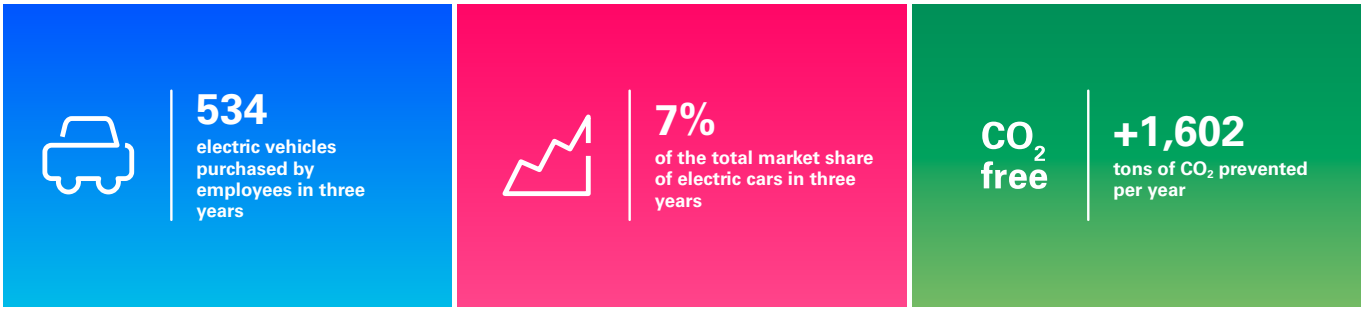
ANDROMEDA: new 100% digital management platform for the installation and after-sale service of ENDESA Comprehensive Solutions.

CONNECTED@HOME: demonstrative project in 11 houses located in Barcelona, Madrid, Málaga and Seville, involving the launch of distributed technologies such as photovoltaic distribution, 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, from which a series of algorithms capable of improving energy efficiency and reducing consumption are executed.

FLEXICIENCY: H2020 European platform which will demonstrate, on a large scale, new services for all European electricity market agents based on almost real-time meter information accessibility. ENDESA leads the demo in the city of Málaga.

GRACIOSA: demonstrator project on the island of La Graciosa consisting of the launch of a micro-network that integrates distributed generation obtained from photovoltaic energy, batteries and ultra-condensers. A range of technologies (PLC communications, low and medium voltage automation and real-time control, energy efficien-

Impact of the employee electric mobility Plan in 2015-2017



cy and active demand management applications) will allow integrating energy fluctuations with customers and on the distribution network efficiently in real time. Further, an optimal operation is carried out with information from the hourly price market. The project is financed with the assistance of funds granted by the CDTI.

OPEN CARE: development of a low-cost device capable of managing and monitoring residential customer gas water heaters in real time.

SGE: platform that provides different control, monitoring and energy advice capacities to customers, basically multi-point.

The following projects are relevant in the development of e-mobility technologies:

ecaR (ENDESA self-charging club): pioneering initiative in Spain that supports e-mobility at the same time as transport and sustainable tourism, offering a fast-charging service through a network of charging points for electric vehicles available for any user. It has a mobile app (available on IOS and Android), through which users can locate the charging points, have a guide on how to get to them, display their availability, unblock and charge without the need for a physical card.

The project was launched in Mallorca with the installation of six fast-charging points (50 kW, which gives an 80% charge of the car battery in 20 minutes), at a distance of approximately 35 km apart, to effectively cover the requirements of the entire island. Currently, the service is available for any type of customer, those belonging to the ecaR club, users who rent an electric vehicle from any of the rent-a-cars belonging to the project and, since the beginning of 2017, occasional users who wish to use the charging points without having any previous contract with ENDESA can charge and pay without signing up by using their credit card. ENDESA is the first company in Spain to incorporate this functionality that allows universal access of any user to these charging points. The power supplied by all of these charging points is guaranteed to be 100% from renewable sources.

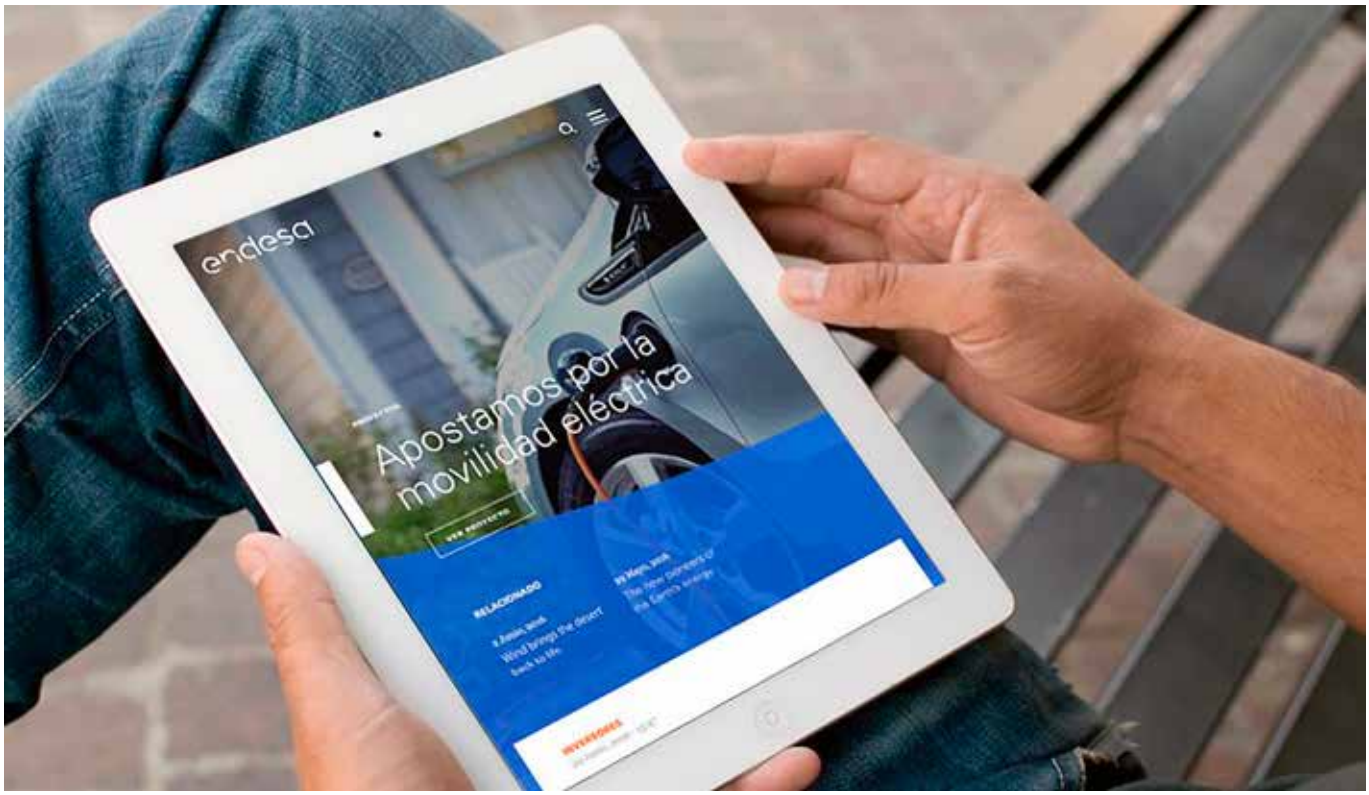
CIRVE (Iberian Fast-Charging Corridors): CIRVE European project within the CEF 2015 call, where eight institutions took part with the aim of rolling-out a network of 40 fast-charging points in urban and peri-urban areas, and boosting the existence of this type of infrastructure in Spain.

ENDESA leads the activity corresponding to the access of electric vehicle users to the charging grid.

1.4. Updated ENDESA electric vehicle web page

During 2017, ENDESA updated and improved its informative web portal about electrical mobility, incorporating a new style that is more aligned with new trends, with greater visual content, simplifying the user's browsing. On that page, not only is ENDESA's activity regarding electrical mobility covered, but also information of interest about electrical mobility is provided, with the objective of focusing on this technology, which is much more energy efficient and respectful to the environment and to society.

(For more information about this event, please consult the website: www.endesavehiculoelectrico.com).



ULTRAFAST: a programme that has the objective of development and installation of an ultra-fast 400kW charger, to offer this service to all heavy-duty electric vehicles in Barcelona, the charger having been opened in 2016. In January 2017, operation of the first two 18-metre passenger buses operated by TMB (Barcelona Metropolitan Transport) began, putting the technology and the associated operating systems to the test.

This 400kW charger was monitored by ENDESA's control centre, in order to provide details on the number of charges done, the energy charged, date and time as well as the status of the battery before and after charging.

Since the commissioning of the charger, an average of 44 tons of CO_2* emissions have ceased from being discharged into the atmosphere.

This initiative forms part of the H2020 **ZeEUS** (Zero Emission Urban System) project, developed within a European consortium to demonstrate the economic, environmental and social feasibility of urban electric buses.

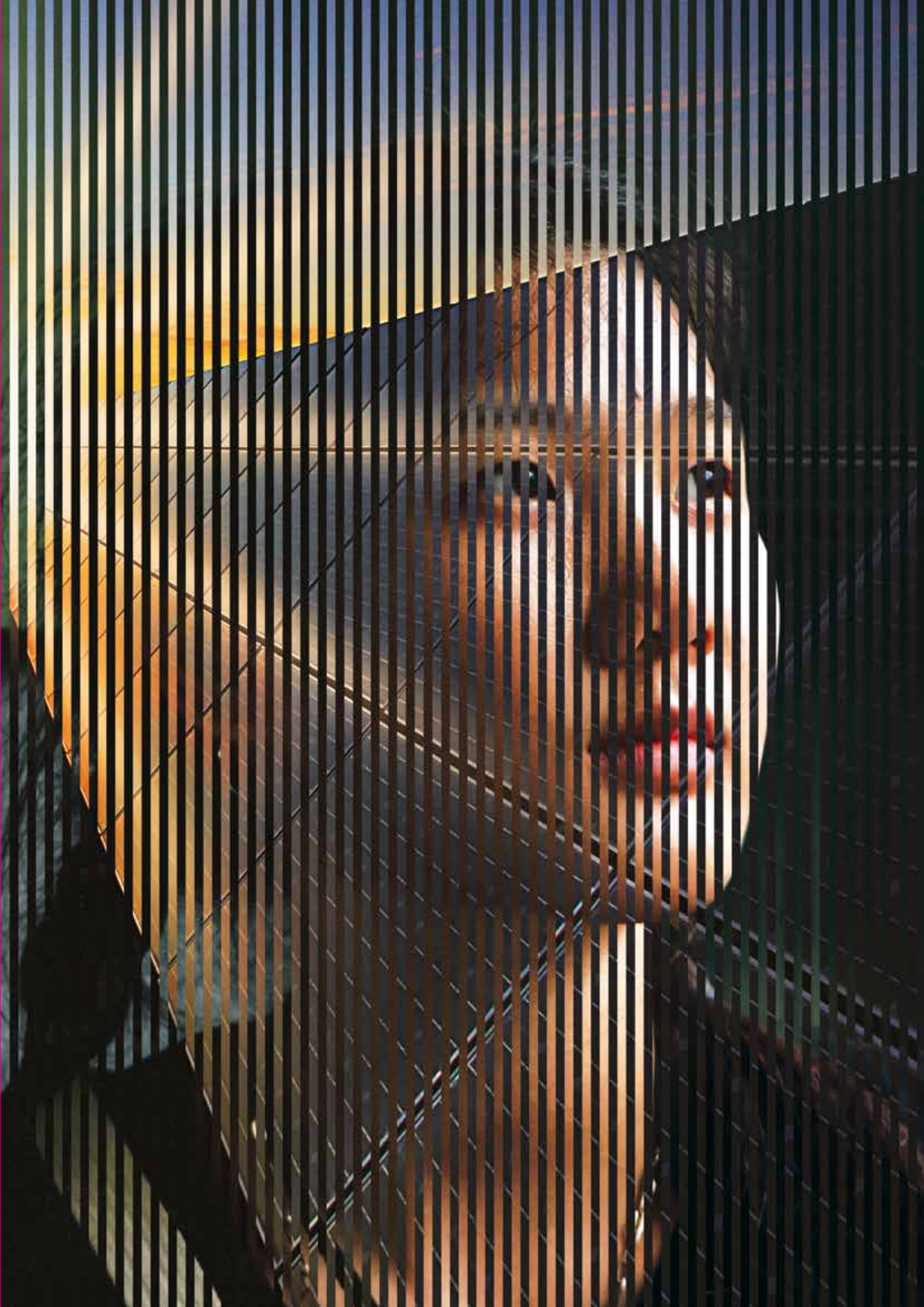
http://zeeus.eu/

SMARTCHARGING: development of a platform that allows managing multiple electric vehicle chargers.

* Data respecting the most restrictive standard diesel, euro standard VI.

10

Our People



1. ENDESA's workforce

ENDESA had 9,706 employees on 31 December 2017, 9,668 in the Spain workforce and 38 in the Portugal workforce.

During 2017, 723 people were hired. Of that total, 256 are new hires in Spain and Portugal and the rest due to transfers from companies from the Enel Group and rehires of surplus personnel. 711 contracts were finalized in the same environment of which 452 pertain to voluntary departures, severance incentive departures and retirements and the rest due to contract terminations, terminations due to excess personnel and transfers to the company from the Enel Group. ENDESA's workforce has increased 0.12% with respect to 2016.

The segmentation of the workforce by age shows that the largest number of employees, 33.7%, was in the age range 45 to 54. The average age of the workforce was 46 years.

97.5% of the employment contracts are permanent, which entails 9,459 contracts. The figure of temporary contracts was 247. The average time an employee has been in the company is 17.9 years of age, emphasizing that over 71.1% of employees have been working in the Company for over 10 years.

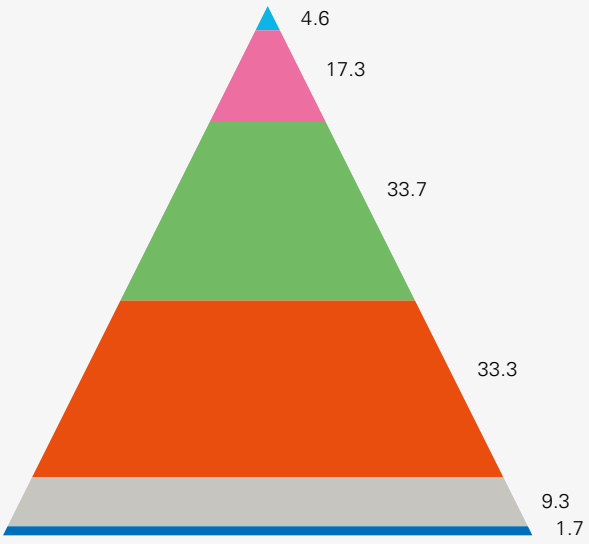
As regards working day, the large majority of employees work full-time. 9,702 employees have full-time contacts and 4 part-time.

ENDESA's workforce at 31 December

	2015	2016	**2017**
Spain and Portugal	10,000	9,694	9,706

Average workforce

	2015	2016	**2017**	% variation 2016/2017
Spain and Portugal	10,242.90	9,819.40	9,856.60	0.38%



Age pyramid of the workforce in Spain and Portugal (%)

- Over 60 years of age
- 55-59 years of age
- 45-54 years of age
- 35-44 years of age
- 28-34 years of age
- Under 28 years of age

2. Management of leadership and talent

ENDESA constantly strives to identify and develop personal potential so that their performance can contribute to making the Company a benchmark in the sector. In this light, talent management ensures the personal development of people based on recognition of merit and contribution.

2.1. Leadership model

ENDESA's leadership model is based on the Group's vision, mission, values and behaviour. The *Open Power* values are present in all personnel management systems.

In 2017, in ENDESA, 89.33% of employees received regular performance and professional development appraisals through any of the Company's appraisal systems, assessing in this way 8,670 employees, 0.5 more than in 2016.

Talent development

ENDESA has continued carrying out the different professional development actions it has been rolling out in recent years. We can highlight the individual 'knowledge' interviews of people, *coaching, mentoring,* consulting for team development, *job shadowing,* workshops for skills development, *onboarding* programmes, business knowledge seminars and definition of succession plans.

- **Onboarding:** Monitoring programme for personnel hired by the company, from the development standpoint, it seeks to expand the skills of new hires by connecting with the Group's *Open Power* values. Through the different phases of the programme, skills are worked on such as: confidence, commitment, equipment generation, business vision, personal growth, proactivity, innovation and responsibility.
- **Knowledge interviews:** 2017, ENDESA has continued with the 'Get to Know' interview initiative, which consists of an interview performed by Human Resources experts with each one of the employees. The purpose is to know, first hand, their interests, aspirations and motivations. Before the interview, a self-profile is completed designed to identify, at that time, the profile of the individual interests.

During 2017, 5,811 of these new interviews were held.

- **Coaching:** ENDESA has continued commitment to *coaching*. During 2017, 141 people have benefited from this type of individual or group actions. ENDESA has an internal coaching network which performs these processes.

  Additionally, through the *From Leader to Coach,* programme aimed at all of the Group's Executives and with the participation of practically the entire group in Spain (149 people), new leadership was presented through *coaching* tools, in harmony with a model of a culture of *Openness,* present in the Enel Group, through the four *Open Power values.*

  Additionally, 166 people managers have taken part in the manager-*coach,* workshops, compared to 141 in attendance in 2016. The subject matters covered have been, among others, *feedback,* communication, listening, creation of trust within the team, and coordination of actions, among others, which offer the managers *coaching* tools to transform the manager profile in ENDESA.

  Further, in 2017, the programme 'Let's Go' aimed at the Company's technical personnel was initiated in order to facilitate skills and competence derived from the coaching necessary in the development of their position.
- **Mentoring:** is a project to transfer knowledge through individual and group *mentoring* with the participation of 19 persons in the conventional mentoring programme in 2017.

  Finalisation of the *Reverse Mentoring,* programme linked to the Company's Digital transformation Plan, in which 27 mentors and 30 *mentees*participated. It is an innovative initiative where the mentors, compared with conventional *mentoring,* are people who are younger than their mentees and provide their extensive experience in digital skills.

  A program called *Women Mentoring* , intended for women Executives from the Group, was initiated in 2017. The main objective is to encourage the development and incorporation of women in high levels of responsibility in the Company.
- **Job Shadowing:** Development initiative that enabled an acceleration of learning and relationships. 23 people from the Group's senior executives in Iberia selected a colleague with whom to trade a work week and using a daily structured agenda, they learned an aspect of business different from their own, developing skills in empathy, innovation, *networking,* collaboration, goals and *feedback,* among others.
- **Business Knowledge Seminars.** During 2017, this initiative continued, which has the objective of increasing the participants' vision of the Company's business and giving them a global and integrated view of the company's different areas of activity. This year, 117 people participated.

3. Training

3.1. Key figures and relevant aspects

ENDESA establishes its Training Plan for the purpose of providing people with the qualification that they need to perform their duties and development of personal and professional attitudes and aptitudes. This Plan is designed to achieve compliance with the Company's strategic objectives and to promote its values of responsibility, innovation, pro-activity and confidence. To perform this activity, ENDESA has invested 21.53 million euros, 4.17 million euros in direct costs of the training activity.

During 2017, 2,654 training events were held at ENDESA. 8,234 employees took part in these events. 342,744.7 training hours were given, achieving an average of 35.3 hours per employee.

Total hours training	2015	401,296.1
	2016	444,063.4
	2017	342,744.7

3.2. Type and content of training

ENDESA's commitment to people results in promoting professional and personal development through continual training aligned with the company's strategic objectives throughout all of its fields of activity in order to contribute to the Company's excellence.

Training activities respond to the needs detected in different analysis processes that ensure continual learning in the different defined categories:

ENDESA is firmly committed to comply with current legislation in relation to each one of the areas where it operates, which entails the inclusion of numerous training activities, among which we can highlight those relating to safety, criminal risk prevention, sustainability and the environment.

- **Energy sustainability training.** The new global energy model in which we are globally immersed must include a strengthened commitment to sustainability as proposed by the Group's *Open Power* positioning. In this way, training in this area takes on great importance with regard to design, development and it offering courses so that ENDESA employees can internalise the principles of sustainability in the area of action, both professional and private, and that with a change of energy behaviour become a benchmark for society.
- **Health and safety training.** Fully raising awareness in the areas of health, safety and well-being, the Occupational Safety and Health

Type of training

Skills	Technique	Safety	Recommended
Transversal training to develop personal and professional attitudes and aptitudes.	Training necessary for correct performance of each work position	Mandatory occupational risk, health and safety training.	Training necessary to comply with the standards (legal or company), for certificates required by units other than those of the student.

courses are aimed at all the workforce with mandatory character, combining *on-line* and in-person methodology, depending on the content and public objective. Additionally, specific actions were carried out for specific positions of responsibility as regards occupational safety and health such as the Occupational Safety and Health Delegates, the Occupational Safety and Health Resources and members of the emergency teams. In order to update knowledge both in legislation and ENDESA's own procedures, courses and the corresponding refreshers were given.

> **Environmental training.** Environmental training takes on a leading role in ENDESA's commitment to spearhead the development and application of new technologies to generate and distribute more sustainable energy, paying particular attention to renewable sources and intelligent distribution networks.

ENDESA's employees dedicated about 7,000 hours to environmental training to reinforce their knowledge about the environment, in addition to meeting the training requirements established to renew the different ISO 14001 certificates and the Integrated System for Environmental Management, Energy and Indoor Environment Quality (SIGAEC) that the Company has.

> **Digitalisation training.** Another year of training focused on driving the digital transformation has involved an important chapter in the annual plan with over 8,126 hours of teaching. A new edition of the training programme was launched: *'e-talent: Turn on your digital power!'* and the offer of courses on digitalisation has increased, acquiring a notable presence with regard to *big data, Salesforce,* Google *analytics,* digital marketing and social media *management*.

> **Other training activities.** Another of ENDESA's fundamental commitments upheld throughout the years is technical training of employees. This enables their professional progress and gives them the necessary qualifications to perform their activity. Over 95,000 hours of technical training have been given in 2017 in the Generation, Renewables, Distribution, Marketing, *ICT,* , Procurement and Support Areas.

In 2017, ENDESA organised the first Tour of Spain in an electric vehicle

4. Attracting and retaining talent

ENDESA carried out *'Employer Branding'* activities to promote the Company in the job market and continue being an attractive place to work. The focus in recent years has been attracting young talent. Likewise, seeking profiles that match the company's values: confidence, responsibility, innovation and proactivity.

In our digital environment, communication and relations with candidates change quickly, for this reason the company's presence on social networks and other *on-line platforms,* has been strengthened and improved, with these digital platforms being one of the main recruitment channels.

In 2017, 161 qualified young people called *millennials* were hired through ENDESA's Scholarship Program. Enhancing their employability and allowing them to put the knowledge acquired during their time at university into practice and start their professional career. 35% of these people were added to the staff upon finishing their scholarship.

The staff rotation rate in Spain has been 7.3%.

4.1. Selection of personal

ENDESA has encouraged employees to participate in its hiring processes, promoting internal mobility and providing opportunities for people looking for new learning and professional development opportunities according to their interests and personal motivation. For this purpose, priority has been given to in-house job offer publication.

In 2017, 230 published internal selection processes were performed, involving close to 1,700 employees.

Where internal promotion is not possible the Company advertises on the job market. In 2017, more than 200 external processes were carried out in Spain and Portugal for permanent and temporary vacancies. They have mainly looked for professional profiles, with commercial, technological and scientific/technological vocation.

In relation to senior management (members of the Executive Management Committee Direction) they come from the local community.

4.2. Remuneration policy

ENDESA's remuneration policy is in line with the national and international legislation regarding Corporate Governance. Its main objective is to retain, attract and motivate the best professionals, guaranteeing internal equality is preserved, external competition and establishing remuneration in accordance with the best market practices. In this regard, ENDESA's remuneration policy supervises that there is competitive and equal remuneration of its employees. The remuneration is determined by analysing the external competitiveness based on market salary surveys, using a job appraisal methodology with criteria from similar companies in terms of employee numbers and turnover.

Likewise, ENDESA's remuneration policy values the principles of meritocracy. ENDESA's meritocracy policy defines the management criteria for the salary adjustments based on the merit of people as differentiating criterion avoiding automatic adjustment due to seniority. In 2017, as in previous years, meritocracy policies have been applied for all employees reaching all of the professional categories. These processes have the chief purpose of awarding people's effort and their commitment to the Company, assigning salary adjustments in differentiated manner, whilst guaranteeing the minimums established in the Agreement. This policy, furthermore, enhances the role of the people manager in people recognition. In 2017, ENDESA continued to offer its employees Flexible Remuneration which was implemented for the first time in 2016.

As of 2013, with the signing of the Framework Agreement, salary scales were implemented in accordance with market practices for external hires. This effect, together with evolution of the workforce and the Company's current remuneration policies, indicate to us that the salary gap is narrowing (10% on average) and is a way that the company will continue to go.

Rejection of forced and child labour

ENDESA expressly condemns child labour, in addition to forced labour through its Ethics Code, committing to strict compliance with international standards such as the UN Global Compact. Condemnation of child and forced labour was also expressly reflected in ENDESA's Human rights Policy. Likewise, ENDESA operates in an environment (Spain and Portugal) where there is a legislative framework that establishes the necessary guarantees so that violations regarding child or forced labour do not occur and that has the most advanced prevention, control and monitoring mechanisms. As a result, no complaint has occurred in this area during 2017.

5. Diversity management at ENDESA

ENDESA, with its focus on people management, annually holds activities in each of the these aspects:

- Managing diversity and equal opportunities.
- Conciliation and flexibility.
- Integration of disabled persons and people at risk of social exclusion.
- Promotion of volunteering.

ENDESA supports diversity among its employees as part of an important asset. Women's participation in the workforce has increased their proportion over the total workers by one percentage point per year during the last three years, which demonstrates the company's firm commitment to gender diversity, taking into account the size of the staff, its historic composition and the very high percentage of permanent contracts and the stable nature of working relationships (the figure for hiring of women reached 34.54% in 2017). Regarding age, it reflects a solid and secure company with respect to seniority and in turn, progressive renewal.

Respecting positions of responsibility, the percentage of responsible posts (officers) held by women in 2017 remained at 16.4%.

As a result of ENDESA's commitment to equality, the Spanish Ministry awarded ENDESA the 'Equality in Companies' award in 2010. In 2017, the Ministry renewed ENDESA's 'Equality in Companies' award for a period of three more years.

ENDESA forms part of the Network of Companies that holds this award and has been actively involved in the various initiatives promoted by this Network.

ENDESA was part of the Generation and Talent Observatory promoted by the 50Plus Association, whose main objective is promotion of generational diversity among organizations. Throughout 2017, ENDESA participated in various Observatory Intergenerational Leadership Forums and likewise participated with employees from various generations in *focus groups* that were developed to analyse the employee's voice. As a result of this work, the study 'Diagnostic of Generational Diversity: analysis of intergenerational talent in companies' was published. ENDESA has hosted the Observatory's Good Practices Meeting in its headquarters in Barcelona.

In order to recognise, respect and manage the differences between people of

different nationalities and to promote their integration, ENDESA put a tutoring programme for Expatriates into operation, consisting of assigning a tutor to all expatriates who will help and support them during their expatriation period.

In order to recognize, respect and manage the different capabilities of the personnel, making the most of the potential each one has, ENDESA has identified their *focal point,* a contact person with respect to the disability, who mission is to support the *Business Partners* of Human Resources to the Health and Safety units to which they pertain, to managers and employees to handle any question related to the disability and specifically, to persons with physical disabilities in compliance with their needs and aspirations. ENDESA carries out various initiatives to integrate staff with disabilities. Specifically, in Spain the workforce contains a total of 80 disabled people.

In 2017, over 1,260 employees took advantage of some line of action aimed at conciliation between professional, personal and family life in Spain and Portugal.

Gender violence

ENDESA put the corporate volunteering programme 'Changing Lives' into operation in 2017, aimed at women victims of gender-based violence, in collaboration with the Integra Foundation and the ENDESA Foundation. The objective of the project is to improve the employability of women victims of gender-based violence and of other groups, giving them the tools needed to incorporate them into professional life, through workshops given by ENDESA volunteers. As a result, 46 women victims of gender-based violence have participated in the programme, 30 have been trained and 17 have found employment.

Finally, recall that the ENDESA Equality Plan was incorporated into its Framework Collective Agreement, includes special measures for the protection of victims of gender-based violence.

Corporate volunteering

In 2017, 18 volunteering projects have been performed with the participation of 650 volunteers, of which, 466 have been during work hours, contributing 3,206 hours. The remaining 184 have collaborated outside of working hours, contributing 403 hours. As a result of these actions, in 2017 over 10,800 people were benefited.

ENDESA, as founding member of *Voluntare,* , has continued to support this international initiative to promote corporate volunteering, formed by companies and entities of the third sector.

Given the good acceptance among employees and the positive impact generated in the community where ENDESA operates, the following initiatives in Spain have been continued this year:

- **Energy volunteering:** A social project in the energy field, driven by ENDESA and the ENDESA Foundation through which employees have the possibility of carrying out solidarity action as volunteers, helping households that are in a situation of energy poverty. In 2017, 4 NGOs participated at the local level with a total of 108 volunteers and 122 participating families, which translated into over 300 beneficiaries. The total average potential savings was 21%, with a maximum of 49% in one of the homes. Additionally, work was given to some 15 installers and training in energy efficiency was given to about 275 persons.
- **Energy Programme for the future:** Project that has the objective of improving the employability of youths at risk of social exclusion through training volunteering aligned with the labour needs of the business. In 2017, it was held at As Pontes (A Coruña) and Tenerife with the participation of 26 volunteer employees, which benefited some 118 students.
- **Coach project:** In collaboration with the Exit Foundation, this volunteering aims to improve the employability of young people at risk of social exclusion, dealing with their self-esteem, motivation and professional guidance, using *coaching* or *mentoring*techniques. With this initiative, 59 people have benefited in 2017 with the support of 60 ENDESA volunteers.
- **Sabes + si compartes lo que sabes (You know more if you share what you know) project:** This programme offers the opportunity to improve the social and occupational integration of people actively seeking employment, with a training process assumed by ENDESA employees. In 2017, 72 people benefited with the support of 11 company volunteers.
- **Solidarity races:** In 2017, two solidarity races were promoted: II Atades Race 'For a new school' (21 volunteers), and 'There is a way out' of domestic violence race (45 volunteers).
- **Let's talk without barriers:** Project where volunteers who are native or bilingual in English or Italian have conversation sessions, *on-line* or by telephone, with disabled university students in order to practice the language to increase their employability. In 2017, seven ENDESA volunteers participated, which helped to benefit the same number of people.
- **Women victims of gender-based violence:** Volunteering program, in collaboration with the Integra Foundation, that seeks to improve the employability of women who are victims of gender-based violence through training workshops. In this second edition held in Madrid, Barcelona and Seville, 26 ENDESA volunteers took part, benefiting 56 women victims of gender-based violence.
- **Christmas collection campaign:** This campaign seeks to help disadvantaged people by collecting non-perishable food and toys, in order to donate them to organisations like the Food Bank, or other organisations of a social nature. In 2017, it was held in the Canary Islands, where 5,174 kg of non-perishable food was collected and 1,088 toys were donated.
- **First Tour in an Electric Vehicle to promote sustainable mobility:** From 24 May to 11 June and in 14 stages, 24 ENDESA employees belonging to the Electrical Mobility Plan travelled to 19 Spanish cities, accompanied by a humorist, advertising sustainable mobility in a practical and up close manner, an emission-free trip .

6. ENDESA: a safe and healthy environment

Thanks to all of the work and effort carried out by ENDESA regarding occupational health and safety, ENDESA has achieved a significant reduction in the accident rate in 2017 compared to 2016.

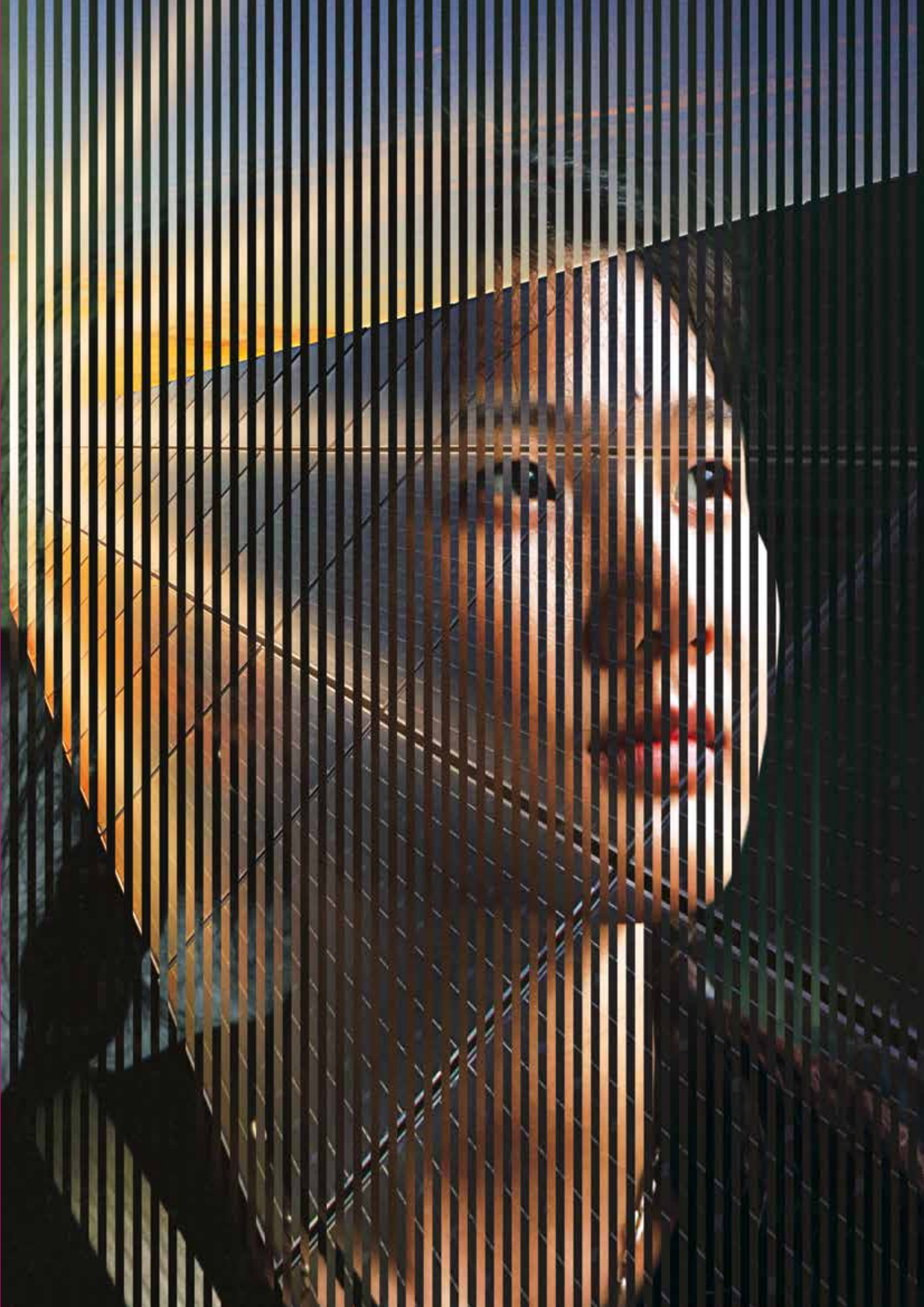
- In 2017, the combined accident frequency index (employees and contractors) was 0.75, which means a 25.46% decrease compared to 2016 and exceeds the goal established for 2017 (1.19).
- The combined number of accidents (employees and contractors) was reduced by 25.57%.
- ENDESA is sad to report that in 2017, there was a fatal accident involving one of its own personnel. Among the contractor personnel, there were no fatal accidents.
- In 2017, the absenteeism index was 2.60, a figure slightly higher than 2016 (2.59).
- The number of days missed in 2017 was 56,494, clearly lower than the 2016 figure (79,936).

ENDESA promotes reduction of the accident rate and in this context, it has established the goal of zero fatal accidents for the 2018-2020 period.

ENDESA›s Commercial Office

11

Other activities



1. ENDESA's digital transformation

The digital transformation was planned at ENDESA to transform it into an organization that is fully connected to the digital ecosystem, focused on the client in a smart and streamlined manner, therefore, we are talking about a process that demands important management of the change in order to successfully address the goal of incorporating new digital technologies. These new technologies fundamentally enable the interconnection between people and things, and facilitate new access to both traditional and newly-created products and services.

Aware of this reality and the opportunities that it presents, ENDESA invested over 270 million euros in 2017 in this transformation.

During 2017, development of different projects in the area of digitalisation of generation plants continued in order to evaluate the possible benefits that the introduction of digital technology has had in generation capacity. The technologies evaluated encompassed both the field of improvement of operation and maintenance of the plants as well as the field of improvement of the health and safety of the personnel and the environment.

The purpose of ENDESA's Remote Management Project is to implement an automatic remote monitoring and management system for the electricity supply of domestic customers. Throughout 2017, ENDESA carried out a total of 2 million replacements and thus achieved 11.2 million total pieces of equipment replaced. These actions resulted in achieving a figure of 93% of meter capacity with contracted power of up to 15 kW managed by remote management equipment.

Regarding the concentrators, over 13,000 were installed during the year, reaching a total of approximately 134,000, which involves 95% of the concentrators installed in Transformation Centres.

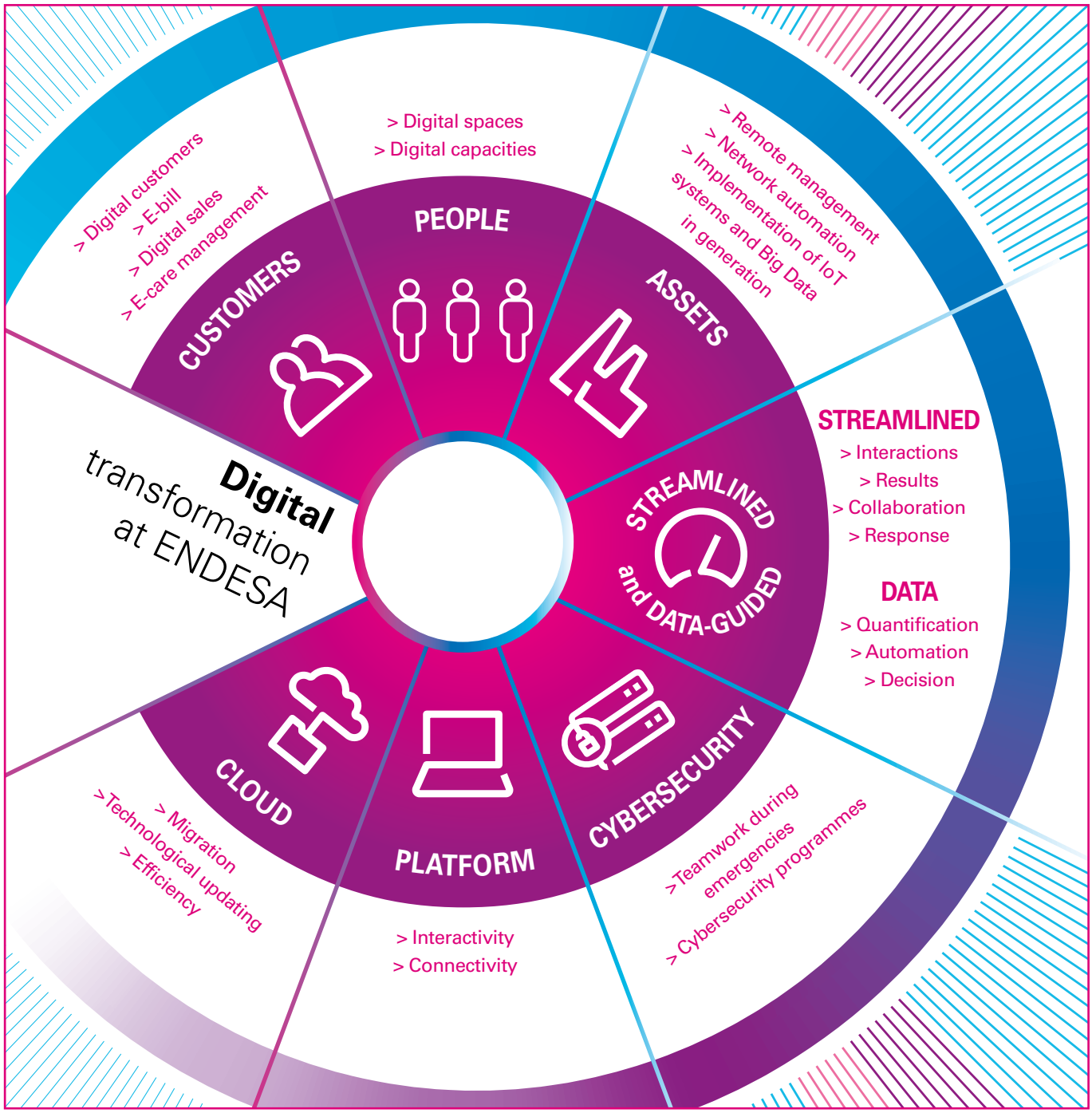
Objectives achieved in 2017 were:

3.8 M
Digital customers

2.1 M
Contracts with 'e-bill'

68.5%
Management via digital channels

9%
Digital Sales


Digital transformation at ENDESA
CUSTOMERS
PEOPLE
ASSETS
STREAMLINED and DATA-GUIDED
CLOUD
PLATFORM
CYBERSECURITY
> Digital customers
> E-bill
> Digital sales
> E-care management
> Digital spaces
> Digital capacities
> Remote management
> Network automation
> Implementation of IoT systems and Big Data in generation
STREAMLINED
> Interactions
> Results
> Collaboration
> Response
DATA
> Quantification
> Automation
> Decision
> Migration
> Technological updating
> Efficiency
> Interactivity
> Connectivity
> Teamwork during emergencies
> Cybersecurity programmes

2. Cybersecurity

The company's negotiation processes were assisted and developed by technological components, which is a trend in steady evolution over the last several decades. New risks derived from the application of the technology in its execution result from this process model. Cyberthreats inherent to each of these environments become ever more frequent and sophisticated and, therefore, cybersecurity has become a global and strategic theme.

ENDESA has a cybersecurity procedure and management model, a global framework applicable to all the companies of the Enel Group, which is sponsored by Top Management and involves all the corporate business areas, and the area responsible for managing the computer systems.

In 2017, a new cybernetic risk management model was developed for the ENEL Group. This model is based on the identification, prioritisation and quantification of the existing security risks, in order to adopt security measures for their minimisation and mitigation. For this reason, ENDESA identifies the existing processes, the information systems and the assets requiring said risk analysis.

3. Procurement

Integrated procurement process in ENDESA

1,887

Millions of € for procurement of materials and services

5,548

suppliers that provided services to ENDESA

649

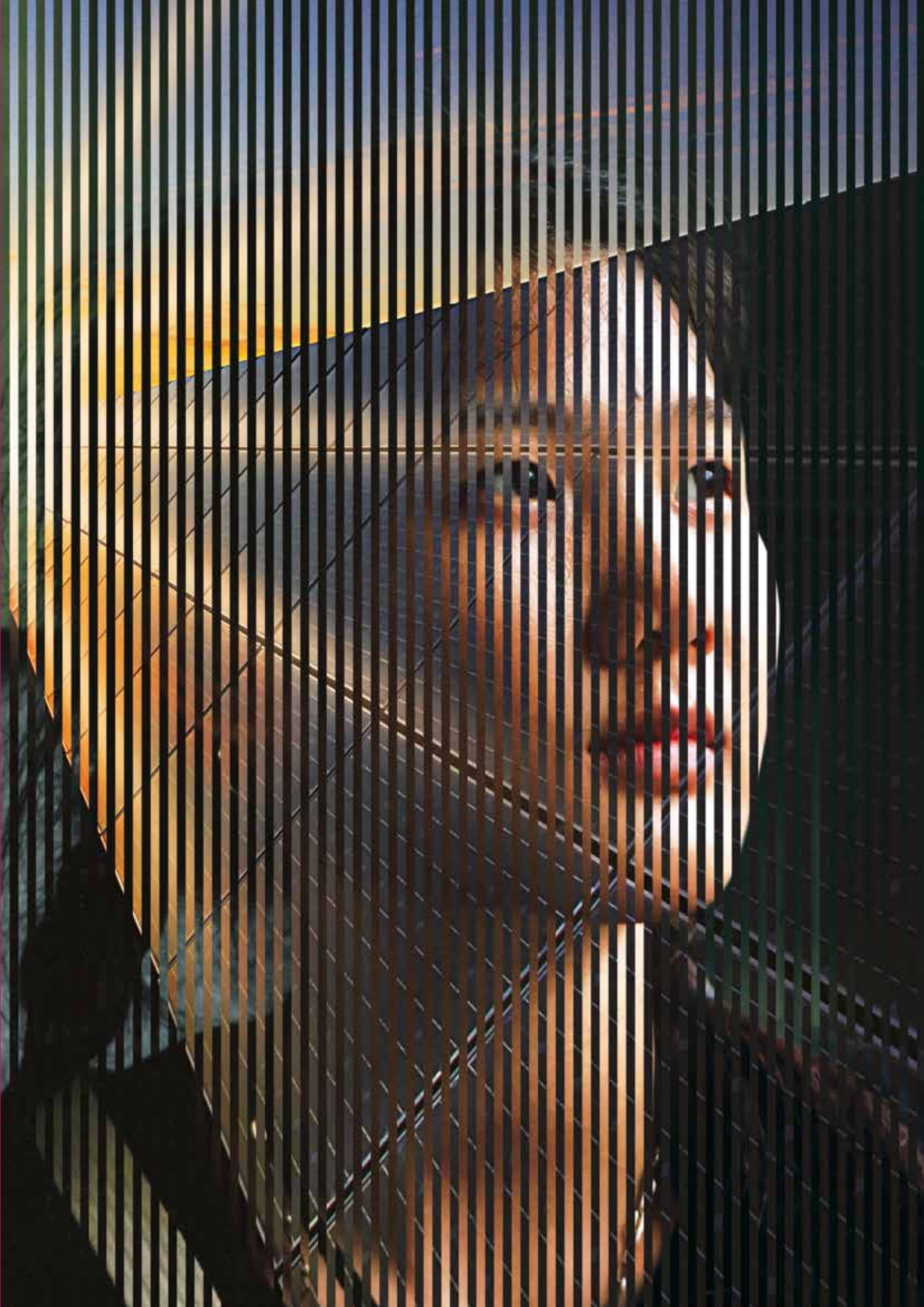
Rated suppliers

100

% of the contractors in Spain and Portugal who have received Occupational Health and Safety Training

12

Appendices



1. ENDESA's generation facilities in Spain on 31/12/2017

	Company of origin	Municipality	Fuel Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
PENINSULA SYSTEM							
Conventional thermal power plants							
Coal							
COMPOSTILLA[1]	ENDESA	Cubillos del Sil-León	H-A	3	1,052	100.0	1,052
ANLLARES	33.33% ENDESA	Anllares-León	H-A	1	365	33.33	122
AS PONTES	ENDESA	As Pontes-La Coruña	CI	4	1,469	100.0	1,469
TERUEL	ENDESA	Andorra-Teruel	LN	3	1,101	100.0	1,101
LITORAL	66.66% END-33.33% SEV	Carboneras-Almeria	CI	2	1,159	100.0	1,159
Total Coal				**13**	**5,146**		**4,903**
Combined Cycle Gas							
SAN ROQUE 2		San Roque-Cádiz	CCTG	1	408	100.0	408
BESÓS 3		Besós-Barcelona	CCTG	1	419	100.0	419
BESÓS 5		Besós-Barcelona	CCTG	3	873	100.0	873
COLÓN 4		Huelva	CCTG	1	398	100.0	398
AS PONTES		As Pontes-La Coruña	CCTG	3	870	100.0	870
Total Gas				**9**	**2,969**		**2,968**
Nuclear							
ASCÓ I	40% END - 60% FEC	Ascó-Tarragona	N	1	1,033	100.0	1,033
ASCÓ II	40% END - 45% FEC	Ascó-Tarragona	N	1	1,027	85.0	873
VANDELLÓS II	72% ENDESA	Vandellós-Tarragona	N	1	1,087	72.0	783
GAROÑA[2]	100% NUCLENOR	Stª Mª Garoña-Burgos	N		0	50.0	0
ALMARAZ I	36% SEVILLIANA	Almaraz-Cáceres	N	1	1,049	36.0	378
ALMARAZ II	36% SEVILLIANA	Almaraz-Cáceres	N	1	1,044	36.0	376
TRILLO[3]	2% NUCLENOR	Trillo-Guadalajara	N	1	1,066	1.0	0
Total Nuclear Thermal				**6**	**6,307**		**3,443**
Hydroelectric							
Conventional hydroelectric							
Hydr. Prod. Unit Northwest			H		749	100.0	749
Hydr. Prod. Unit Ebro-Pyrenees			H		1,992	100.0	1,992
Hydr. Prod. Unit South			H		661	100.0	661
Pumped generation							
Hydr. Prod. Unit Ebro-Pirineos			H		760	100.0	760
Hydr. Prod. Unit South			H		590	100.0	590
Total Hydroelectric					**4,752**		**4,752**
Total Peninsula					**19,173**		**16,065**
NON-PENINSULA SYSTEMS							
Balearic Islands							
Coal							
ALCUDIA	GESA	Mallorca	CI	4	510	100.0	510
Fuel-gas							
ALCUDIA	GESA	Mallorca	G	2	75	100.0	75

	Company of origin	Municipality	Fuel Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
SON REUS	GESA	Mallorca	G	11	612	100.0	612
CAS TRESORER	GESA	Mallorca	G	6	473	100.0	473
MAHON	GESA	Menorca	F-G	8	270	100.0	270
IBIZA	GESA	Ibiza	F-G	16	366	100.0	366
FORMENTERA	GESA	Formentera	G	1	14	100.0	14
Total Balearic Islands				**48**	**2,320**		**2,320**
Canary Islands							
Fuel-gas							
JINAMAR	UNELCO	Gran Canaria	F-G	10	302	100.0	302
BARRANCO DE TIRAJANA	UNELCO	Gran Canaria	F-G	10	697	100.0	697
CANDELARIA[4]	UNELCO	Tenerife	F-G	7	221	100.0	221
GRANADILLA[5]	UNELCO	Tenerife	F-G	14	797	100.0	797
PUNTA GRANDE	UNELCO	Lanzarote	D-G	13	231	100.0	231
LAS SALINAS	UNELCO	Fuerteventura	D-G	12	187	100.0	187
EL PALMAR	UNELCO	La Gomera	D	10	23	100.0	23
LLANOS BLANCOS	UNELCO	El Hierro	D	9	13	100.0	13
LOS GUINCHOS	UNELCO	La Palma	D-G	11	108	100.0	108
Total Canary Islands				**96**	**2,579**		**2,579**
Ceuta and Melilla							
CEUTA	ENDESA	Ceuta	F-D	10	99	100.0	99
MELILLA	ENDESA	Melilla	F-G	8	85	100.0	85
Total Ceuta and Melilla					**184**		**184**
Total Island and Non-Peninsular					**5,083**		**5,083**
RENEWABLE ENERGIES							
Mini-hydraulic							
IZBOR	Enel Green Power España	Andalusia	H	1	12.0		12.0
GRAUS	Enel Green Power España	Aragon	H	1	2.2		2.2
CASAS	Enel Green Power España	Catalonia	H	1	0.1		0.1
VIELHA TUNNEL	Enel Green Power España	Catalonia	H	1	0.3		0.3
CH LOS BATANES	Enel Green Power España	Castile and Leon	H	1	0.2		0.2
CH ROSARITO	Enel Green Power España	Castile and Leon	H	1	4.9		4.9
CH VILLAMECA	Enel Green Power España	Castile and Leon	H	1	0.6		0.6
CH ANILLO	Enel Green Power España	Galicia	H	1	7.9		7.9
CH ARROIBAR	Enel Green Power España	Galicia	H	1	14.8		14.8
CH SAN JUAN DE MURO	Enel Green Power España	Galicia	H	1	0.1		0.1
Total Mini-hydraulic				**10**	**43.0**		**43.0**
Wind							
PLANTA EÓLICA EUROPEA	Enel Green Power España	Andalusia	E	1	6.0		6.0
LOS LANCES	Enel Green Power España	Andalusia	E	1	10.7		10.7
PESUR	Enel Green Power España	Andalusia	E	1	42.0		42.0
EEE	Enel Green Power España	Andalusia	E	1	32.0		32.0
W.F. GRANUJALES	Enel Green Power España	Andalusia	E	1	24.0		24.0
W.F. DE ENIX	Enel Green Power España	Andalusia	E	1	13.2		13.2
W.F. LOS BARRANCOS	Enel Green Power España	Andalusia	E	1	20.0		20.0
W.F. MENAUTE	Enel Green Power España	Andalusia	E	1	37.4		37.4
ANGOSTURAS	Enel Green Power España	Andalusia	E	1	36.0		36.0
MADROÑALES	Enel Green Power España	Andalusia	E	1	34.0		34.0
W.F. PADUL	Enel Green Power España	Andalusia	E	1	18.0		18.0
ACAMPO	Enel Green Power España	Aragon	E	1	6.0		6.0

	Company of origin	Municipality	Fuel Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
AGUILÓN	Enel Green Power España	Aragon	E	1	50.0		50.0
ALMARÉN	Enel Green Power España	Aragon	E	1	11.9		11.9
ARAGON	Enel Green Power España	Aragon	E	1	5.3		5.3
EL PUERTO-TRINIDAD	Enel Green Power España	Aragon	E	1	25.1		25.1
LA MUELA II + LA MUELA III	Enel Green Power España	Aragon	E	1	29.7		29.7
W.F. DE ESCUCHA + SANT JUST	Enel Green Power España	Aragon	E	1	28.4		28.4
SASO PLANO	Enel Green Power España	Aragon	E	1	39.2		39.2
SIERRA COSTERA	Enel Green Power España	Aragon	E	1	40.8		40.8
SIERRA DE LA VIRGEN	Enel Green Power España	Aragon	E	1	28.8		28.8
ALTO DE LAS CASILLAS I	Enel Green Power España	C. Valenciana	E	1	30.0		30.0
ALTO DE LAS CASILLAS II	Enel Green Power España	C. Valenciana	E	1	30.0		30.0
ÁGREDA	Enel Green Power España	Castile and Leon	E	1	18.0		18.0
CANTIRUELA	Enel Green Power España	Castile and Leon	E	1	15.0		15.0
COGOLLOS II	Enel Green Power España	Castile and Leon	E	1	50.0		50.0
LAS PARDAS	Enel Green Power España	Castile and Leon	E	1	49.5		49.5
LOS LLANOS	Enel Green Power España	Castile and Leon	E	1	38.0		38.0
MONTE DE LAS NAVAS	Enel Green Power España	Castile and Leon	E	1	48.8		48.8
SIERRA DEL CORTADO	Enel Green Power España	Castile and Leon	E	1	18.5		18.5
SIERRA DEL CORTADO II	Enel Green Power España	Castile and Leon	E	1	13.5		13.5
SIERRA DEL MADERO I and II	Enel Green Power España	Castile and Leon	E	1	28.7		28.7
VALDIHUELO	Enel Green Power España	Castile and Leon	E	1	16.2		16.2
W.F. CALDEREROS	Enel Green Power España	Castile-La Mancha	E	1	37.8		37.8
W.F. PEÑA II	Enel Green Power España	Castile-La Mancha	E	1	18.0		18.0
W.F. PICAZO	Enel Green Power España	Castile-La Mancha	E	1	14.0		14.0
W.F. BELMONTE	Enel Green Power España	Asturias	E	1	34.9		34.9
ARICO I AND II	Enel Green Power España	Canary Islands	E	1	16.5		16.5
ARINAGA	Enel Green Power España	Canary Islands	E	1	6.9		6.9
BARRANCO DE TIRAJANA	Enel Green Power España	Canary Islands	E	1	2.0		2.0
CUEVA BLANCA	Enel Green Power España	Canary Islands	E	1	2.0		2.0
FARO FUENCALIENTE	Enel Green Power España	Canary Islands	E	1	2.3		2.3
FINCA SAN ANTONIO	Enel Green Power España	Canary Islands	E	1	1.5		1.5
W.F. DE EPINA	Enel Green Power España	Canary Islands	E	1	0.4		0.4
W.F. DE GARAFÍA (JUAN ADALID)	Enel Green Power España	Canary Islands	E	1	1.6		1.6
W.F. GRANADILLA I	Enel Green Power España	Canary Islands	E	1	0.2		0.2
W.F. GRANADILLA II	Enel Green Power España	Canary Islands	E	1	0.3		0.3
PUNTA DE TENO	Enel Green Power España	Canary Islands	E	1	1.8		1.8
SANTA LUCÍA	Enel Green Power España	Canary Islands	E	1	4.8		4.8
LANCHAL	Enel Green Power España	Castile and Leon	E	1	21.3		21.3
W.F. ALDEAVIEJA	Enel Green Power España	Castile and Leon	E	1	14.5		14.5
W.F. PEÑA DEL GATO	Enel Green Power España	Castile and Leon	E	1	50.0		50.0
PUCHERUELO	Enel Green Power España	Castile and Leon	E	1	23.0		23.0
VALDESAMARIO	Enel Green Power España	Castile and Leon	E	1	24.0		24.0
BARBANZA I AND II	Enel Green Power España	Galicia	E	1	29.0		29.0
CAPELADA I AND CAPELADA II	Enel Green Power España	Galicia	E	1	31.4		31.4
FALADOIRA-COTO TEIXIDO	Enel Green Power España	Galicia	E	1	47.5		47.5
W.F. CHAN DO TENON	Enel Green Power España	Galicia	E	1	22.4		22.4
W.F. LEBOREIRO	Enel Green Power España	Galicia	E	1	21.1		21.1
W.F. PENA VENTOSA	Enel Green Power España	Galicia	E	1	44.8		44.8
W.F. CAREÓN	Enel Green Power España	Galicia	E	1	18.0		18.0
W.F. CASTELO	Enel Green Power España	Galicia	E	1	16.5		16.5

	Company of origin	Municipality	Fuel Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
W.F. CORISCADA	Enel Green Power España	Galicia	E	1	24.0		24.0
W.F. CORZÁN	Enel Green Power España	Galicia	E	1	43.2		43.2
W.F. COUTO SAN SEBASTIAN	Enel Green Power España	Galicia	E	1	18.0		18.0
W.F. DO VILÁN	Enel Green Power España	Galicia	E	1	16.9		16.9
W.F. PEÑA ARMADA	Enel Green Power España	Galicia	E	1	20.7		20.7
W.F. PEÑA FORCADA	Enel Green Power España	Galicia	E	1	33.8		33.8
W.F. SAN ANDRÉS	Enel Green Power España	Galicia	E	1	33.0		33.0
W.F. VIRAVENTO	Enel Green Power España	Galicia	E	1	1.2		1.2
TOURIÑAN	Enel Green Power España	Galicia	E	1	24.7		24.7
Total Wind power				**71**	**1,618.3**		**1,618.3**
Photovoltaic							
AZNALCOLLAR	Enel Green Power España	Andalusia	FV	1	1.0		1.0
GUADARRANQUE	Enel Green Power España	Andalusia	FV	1	12.3		12.3
CF LOS BARRIOS	Enel Green Power España	Andalusia	FV	1	0.1		0.1
CF CORISCADA	Enel Green Power España	Galicia	FV	1	0.02		0.02
Total Photovoltaic				**4**	**13.4**		**13.4**
Biomass							
AGUAS DE JEREZ	Enel Green Power España	Andalusia	B	1	0.5		0.5
Total Biomass				**1**	**0.5**		**0.5**
Total Renewable energies[6]					**1,675**		**1,675.2**
Total Spain ENDESAGroup					**25,931**		**22,823**
GORONA DEL VIENTO[7]		El Hierro	H+E	9	12	23.2	0

[1] Compostilla: Decision of closure authorisation of Unit 2 (147.9 MW) 12/11/2015; The Subdelegation of the Government of Leon extended the Certificate of Closure on 11 January 2016.
[2] In the Official Government Daily Gazette of 3 August 2017, Order ETU/754/2017 of 1 August was published, by which renewal of authorization for operation of the nuclear power plant was denied and the date of 6 July 2013 was confirmed, set forth in Order IET/1302/2013, as the date for final cessation of operation of the Santa Maria de Garoña nuclear power plant.
[3] ENDESA Generación has 50% of Nuclenor, a company which holds the stake in Garoña and Trillo. Consolidated under the equity method.
[4] Candelaria includes the Guía de Isora facilities: TG1: 48.6 MW (twin-pack type = 2*24.3).
[5] Granadilla includes the Arona facilities (TG1+TG2: 2*24.3 MW).
[6] Consolidable installed capacity Enel Green Power España on 31 December 2017.
[7] Hydroelectric electricity production plant of the company Gorona del Viento El Hierro, S.A., controlled 23.21% by Unelco Generation, S.A.

Fuels:

H-A (anthracite-coal)
F (fuel-oil)
D (diesel)
FV (photovoltaic)
LP (brown coal)
G (gas-oil)
N (nuclear)
B (biomass)
LN (black coal)
GN (natural gas)
H (hydraulic)
H+E (pumped hydroelectric + wind)
CI (imported coal)
CCTG (combined cycle – gas turbine)
E (wind power)

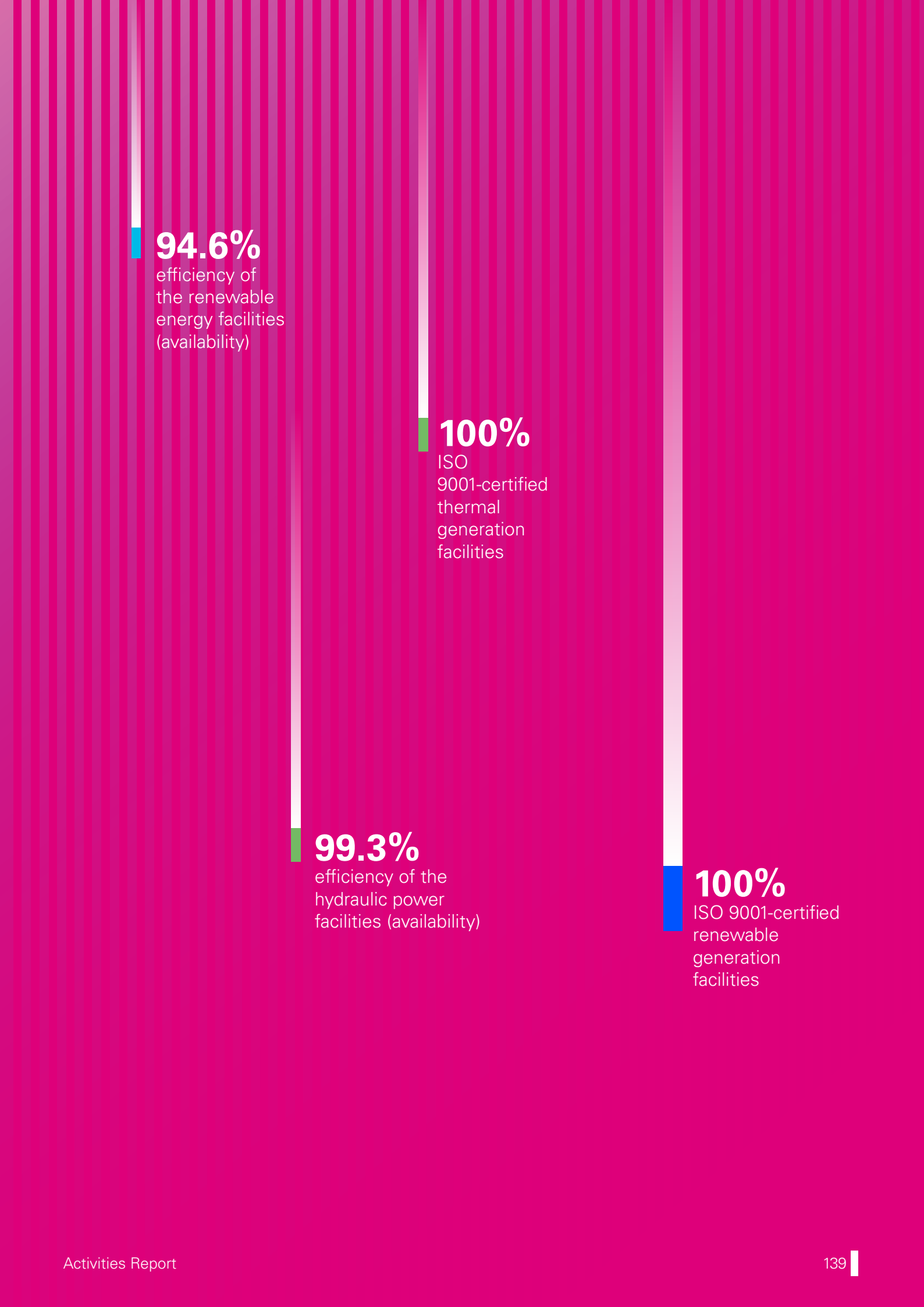
2. ENDESA's generation facilities in Portugal on 31/12/2017

	Company of origin	Municipality	Fuel	Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
PORTUGAL								
Coal								
TEJO[1]	ENDESA	Pego, Abrantes		CI	2	628	43.8	0.0
Total Coal					**2**	**628**		**0**
Combined Cycle Gas								
ELECGAS[2]	ENDESA	Pego, Abrantes		CCTG	2	855	100.0	855
Total Combined Cycle Gas					**2**	**855**		**855**
Total Portugal					**4**	**1,483**		**855**
Total Spain and Portugal Group ENDESA						**27,414**		**23,678**

[1] Tejo consolidated under the equity method.
[2] ENDESA has a 50% stake in Elecgas, but holds 100% of the Tolling contract.

	Company of origin	Municipality	Fuel	Type	Number of groups	Total power (MW)	% ENDESA	Power consolidable in ENDESA (MW)
MOROCCO								
TAHADDAR[1]		Tahaddart		CCGT	1	384	32	123
Total Morocco					**1**	**384**	**32**	**123**

[1] Tahaddart consolidated under the equity method.


94.6%
efficiency of the renewable energy facilities (availability)
100%
ISO 9001-certified thermal generation facilities
99.3%
efficiency of the hydraulic power facilities (availability)
100%
ISO 9001-certified renewable generation facilities

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Seeding Energies. The Power of Being.

We are the energy that allows each person to best express their potential. We are the environment in which we live and the change to which we earnestly dedicate ourselves every day. For that reason, we are committed to protecting our planet and promoting social development. With passion and innovation. 365 days a year. We are the communities where we work and with which we grow. Because we have the power to be sustainable