A photograph of a horse in a field, overlaid with a vertical blue and white striped pattern. The horse is the central focus, with its head and neck visible. The background shows a grassy field and some trees. The overall color palette is dominated by the blue and white stripes, with natural colors from the horse and landscape visible through the pattern.

Statement of Non-Financial
Information of Endesa, S.A.

endesa

Statement of Non-Financial Information of ENDESA, S.A.

Madrid, 26 February 2018

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ORGANISATION OF ENDESA, S.A.

1. Business Model for the Management and Organisation of Company Activities.

1.1. Name of the Organisation.

ENDESA, S.A.

1.2. Activities, Brands, Products and Services.

ENDESA, S.A. (hereinafter the “Company”) was incorporated as a company limited by shares under Spanish law on 18 November 1944 under the name Empresa Nacional de Electricidad, S.A. and changed its name to ENDESA, S.A. pursuant to a resolution passed by the shareholders at the General Meeting of shareholders on 25 June 1997.

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

The Company carries out its corporate purpose in Spain and abroad through its investments in other companies.

The Company holds interests in Group and jointly controlled companies and Associates, and consequently it is the parent of a group of companies in accordance with current legislation.

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

1.3. Location of the Registered Office.

Calle Ribera del Loira, nº 60

28042 Madrid

Spain

1.4. Location of Operations.

See section 1.7.

1.5. Criteria for the Preparation of the Statement of non-Financial Information.

This document, which is part of the ENDESA’s Management Report as of 31 December 2017, was prepared in accordance with the requirements set forth by Royal Decree-Law 16/2017, of 24 of November, which amends the Merchant Code, Capital Companies Law approved by Royal Legislative Decree 1/2010, 2 July, and Law 22/2015, of 20^h July, on Accounts Auditing, in the aspects of non-financial and diversity information. In order to provide this information, the ENDESA Group has followed the Global Reporting Initiative (GRI Standards) and its sectorial supplement, “Electric Utilities sector Supplement” for the indicators detailed in the Annex attached.

The scope of this Statement of non-financial information includes information for the ENDESA S.A. for 2017.

1.6. Ownership and Legal Form.

To comply with Electricity Sector Law 24/2013 of 26 December 1997, derogating from previous Law 54/1997 of 27 November on the electricity sector, ENDESA, S.A. underwent a corporate reorganisation to separate its various electricity activities. As from that time the activity carried out by ENDESA, S.A. essentially focuses on the management and rendering of services to its business group, which consists of the financial interests described in Note 8 of the Notes to the Annual Accounts for the year ended 31 December 2017.

ENDESA, S.A.'s activity is structured by business lines, giving the Company flexibility and the ability to respond to the needs of its customers in the territories and businesses in which it operates. For the organisation of its lines of business, ENDESA, S.A. works primarily through the following companies:

- ENDESA Generación, S.A.U. which, in turn, comprises, among others, holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), ENEL Green Power España, S.L.U. (EGPE) (100%) and a 50% stake in Nuclenor, S.A., which owns the Nuclear Plant at Santa María de Garoña (Burgos).
- ENDESA Red, S.A.U., which comprises, among others, ENDESA Distribución Eléctrica, S.L.U. (100%), which engages in regulated electricity distribution activities, and ENDESA Ingeniería, S.L.U. (100%).
- ENDESA Energía, S.A.U., which owns holdings in ENDESA Energía XXI, S.L.U. (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%).

1.7. Markets Supplied.

Through its interests in other companies, ENDESA, S.A. generates, distributes and sells electricity mainly in Spain and Portugal and, to a lesser extent, supplies electricity and gas to other European markets, in particular Germany, France, Belgium, and the Netherlands, from its platform in Spain and Portugal.

2. ENDESA, S.A. in Figures.

Millones de Euros

	2015	2016	2017
Operating Profit (millions of euros)	1,219	1,495	1,603
Profit for the Year (millions of euros)	1,135	1,419	1,491
Non-Current Investments in Group Companies and Associates (millions of euros) ⁽¹⁾	14,813	14,793	14,803
Share Capital (millions of euros) ⁽¹⁾	1,271	1,271	1,271
Non-current Financial Debt (millions of euros) ⁽¹⁾	5,929	4,928	4,955
Final Headcount (number of employees) ⁽¹⁾	1,390	1,391	1,360

(1) At 31 December.

3. Significant Organisational Changes.

During 2017, there were no other significant changes in the interests held by ENDESA, S.A. in Group and jointly-controlled companies and associates.

4. Commitment to a Sustainable Energy Model.

4.1. Open Power Strategic Positioning.

ENDESA, S.A. has always been at the forefront of the different progress in the energy sector, carrying safe, accessible and sustainable energy to millions of people through its stakes in other companies.

Aware of the significant change currently affecting the energy sector, ENDESA, S.A. are situated in a new energy era, more open, participative and digital. Such positioning is summarised in the concept of *Open Power*, which constitutes the Company's mission, vision and values:

2025 mission:

- Open energy to more people.
- Open energy to new technologies.
- Open new ways of managing energy for consumers.
- Open energy to new uses.
- Open up ourselves to more employees.

Vision:

- Open Power to affront some of the greatest challenges in the world.

Values:

- Responsibility.
- Innovation.
- Trust.
- Pro-activity.

4.2. Sustainability Policy.

Meeting ENDESA, S.A.'s economic, social and environmental responsibilities in a balanced way, on the basis of sustainability, is essential if it is to maintain its leading position and strengthen it in the future.

Accordingly, the sustainability policy approved by the Board of Directors and applied by ENDESA, S.A. and all its group companies aims to determine and formalise the Company's commitment to sustainable development, shown by the strategic positioning in *Open Power*.

To this effect, the commitments set out in the Sustainability Policy constitute the basis and guidelines for ENDESA, S.A.'s conduct in the promotion of a sustainable business model and, in this regard, its compliance is expressly boosted by the Company's senior management, concerns employees, contractors and suppliers, and is evaluated by third parties:

- These commitments are fully integrated into day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions that are included in successive Sustainability Plans.
- ENDESA, S.A. has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments. In this regard, the Audit and Compliance Committee (ACC) annually monitors the corporate social responsibility strategy and practices.

- ENDESA, S.A.'s focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.
- ENDESA, S.A. is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholders.

Accordingly, the Sustainability Policy establishes nine specific commitments:

- **Customers:** commitment to digital quality, commercial excellence and efficient energy consumption.
- **Shareholders and investors:** commitment to creating value and profitability.
- **People:** commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA, S.A.
- **Conduct:** commitment to good governance, transparency and ethical conduct.
- **Environment:** commitment to reducing the environmental footprint and protecting the environment.
- **Innovation:** commitment to innovation in technology and the scope of services.
- **Company:** commitment to the socio-economic development of the communities in which the Company operates.
- **Institutions:** commitment to developing public-private partnerships to promote sustainable development.
- **Employees:** commitment of those who work with us to be actively involved in sustainability.

5. Organisational Approach of Stakeholder Participation: Identification and Participation of stakeholders.

The stakeholders and their expectations constitute the base on which ENDESA, S.A. organises its sustainability strategy. Accordingly, the Company pledges for the promotion of on-going dialogue with its stakeholders, with respect to which it reviews, identifies and catalogues, for the Company and all of its investees, its stakeholders at regular intervals, both at local and global level.

For further information see Chapter 1, section 5 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

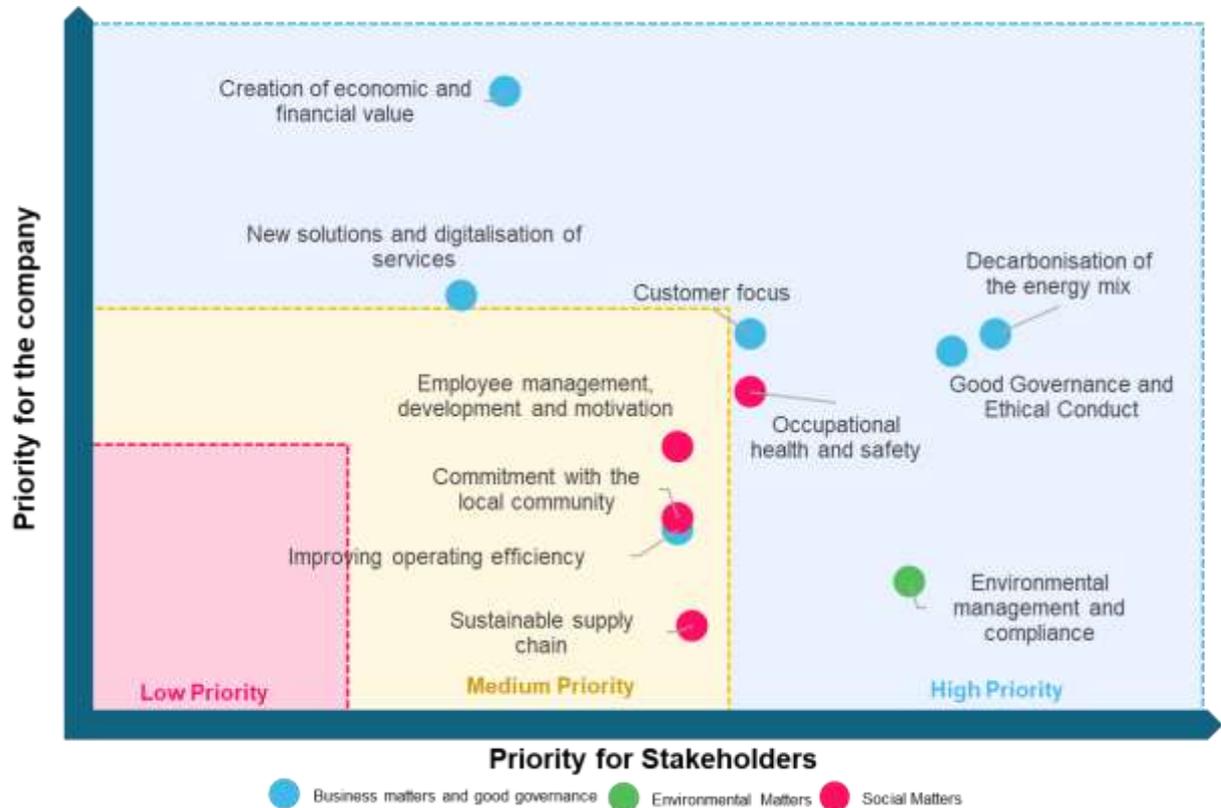
6. Materiality Study: Identification of Priorities based on Dialogue with Stakeholders, and Financial, Environmental and Social Matters

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

In 2017, ENDESA, S.A. performed a materiality study, which served as a base to define the priorities of its 2018-2020 Sustainability Plan, which will be developed by its investee companies.

Nearly 4,000 sources and representatives of 18 stakeholders were directly and indirectly consulted in 2017.

The combination between the variables analysed in the materiality study performed, that is, relevance in the business strategy and priority for the stakeholders is expressed in the following chart:



As shown in the previous chart, among the most significant matters for the Company's sustainability are, due to their relevance to the Company and its investees, the creation of economic and financial value, the decarbonisation of the energy mix, good governance and ethical corporate code, customer guidance and the development of new solutions and digitalisation.

For further information see chapter 1, section 6.2 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

7. Sustainability Plan.

7.1. ENDESA's 2017-2019 Sustainability Plan (PES).

To succeed in integrating sustainability into the management of the business and into the decision-making processes, there must be maximum alignment between the business strategy implemented by the various investees and the sustainability strategy, so that both are aimed at the attainment of the same objective and which are fed back to achieve it, thereby generating economic value for the Company in the short and long-term.

Accordingly, ENDESA's 2017-2019 Sustainability Plan (PES) defined four priorities for a sustainable business model aligned with the 2017-2019 Strategic Plan itself: decarbonisation of

the energy mix; digitalisation of assets, customers and people; customer guidance and operating efficiency and innovation.

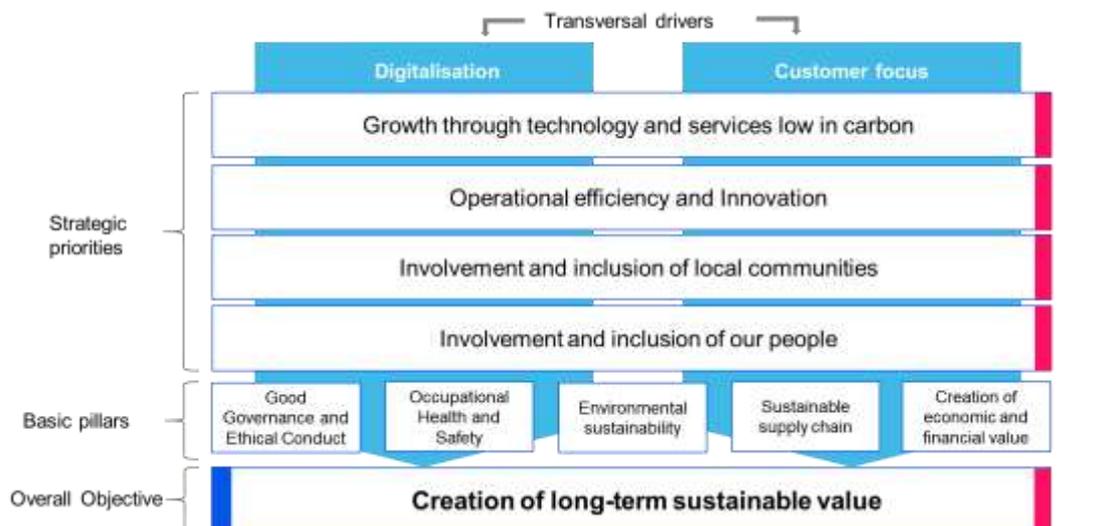
Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management throughout the entire value creation chain, five transversal strategic pillars were identified: integrity, human capital, occupational health and safety, environmental sustainability and responsible supply chain.

With more than 100 quantitative management targets, ENDESA, S.A. has responded to each of the priorities and strategic pillars defined in its 2017-2019 Sustainability Plan (PES) through its subsidiaries' businesses, and has achieved overall compliance of 93%.

As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA, S.A. discloses compliance with its objectives and the courses of action in the 2017-2019 Sustainability Plan (PES) in this Disclosure of Non-Financial Information (see following headings) and in the 2017 Sustainability Report, which will be available for consultation on its website.

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

On 22 November 2017, ENDESA, S.A. presented the update of its 2018-2020 Strategic Plan to the investment community. Alongside this, and in order to achieve maximum alignment between the sustainability strategy and that of the business, ENDESA, S.A. performed an analysis and a reflection, based on the results of the materiality study performed in 2017 for the design of its new 2018-2020 Sustainability Plan, which will be directly or indirectly executed by the Company and its investees. This plan is based on the achievements and improvement opportunities identified in the previous plan, thereby indicating procedural priorities for the coming three years.



For further information see chapter 1, section 7 of the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

RISK MANAGEMENT

1. Risk Control and Management Policy.

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

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

The Risk Management and Control Process is based partly on the ongoing study of the risk profile, applying current best practices in the energy sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, always respecting an appropriate balance between the risk assumed and the targets set by the Board of Directors.

The comprehensive risk management process consists of the identification, measurement, analysis and monitoring of different risks, together with their monitoring and control over time, based on the following procedures:

- Identification. The purpose of identifying risks is to maintain a prioritised and updated database of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement. The purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to the risks assumed, including all of ENDESA, S.A. and its group companies.
- Control. The aim of the risk control is to guarantee that the risk assumed by ENDESA, S.A. is in line with the targets set, in the last instance, by the Board of Directors of ENDESA, S.A.
- Management. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

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

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

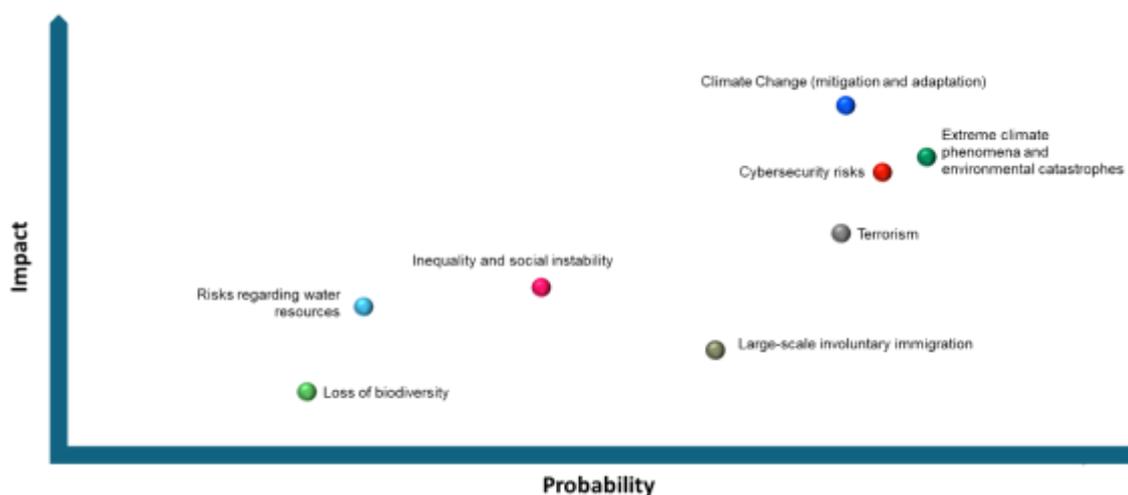
Furthermore, the Board of Directors of ENDESA, S.A. also approved a Tax Risk Management and Control Policy to guide and direct all strategic, organisational and operating activities to enable the Board to identify precisely the acceptable tax risk level, to ensure that the tax managers meet the objectives set by the Risk Management and Control Policy in respect of tax risks. The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A., and is available on its website at www.endesa.com.

2. Main Sustainability Risks - Impacts of Risks and Opportunities Related with Environmental and Social Matters.

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

In 2017, ENDESA, S.A. updated the identification of emerging sustainability risks with a medium- and long-term impact related with certain of the dimensions of sustainability. The objective is to analyse the impact that they may have on the businesses of its investee companies and to establish the measures required for their control and prevention.

In this regard, ENDESA, S.A. has taken the identification of global risks prepared by the World Economic Forum as a reference, based on enquiries to almost 1,000 experts on the perception of global risks. This map was adjusted to the context of the operations of ENDESA, S.A. and its investee companies, based on enquiries made by the Company to stakeholders as part of the materiality study, thereby enabling the most significant sustainability risks to be identified.



For further information see section 2 of the Risk Management section in the Statement of non-financial information regarding diversity in the Consolidated Management Report for the year ended 31 December 2017.

RESPECT FOR HUMAN RIGHTS

1. Management Approach: Human Rights Policy at ENDESA, S.A.

ENDESA, S.A. maintains a permanent commitment to the respect and promotion of human rights. This commitment is reflected in its corporate policies and shown by its adhesion to the United Nations Global Compact, the two first principles of which include supporting and respecting the protection of human rights and non-complicity in human rights abuse. Moreover, since it was founded, ENDESA, S.A. has been a pioneer in activities that ensure respect for human rights in its lines of business and its supply chain, by developing continuous processes to identify risks and potential impacts regarding human rights.

Following the approval of the Guiding Principles on Business and Human Rights by the United Nations, ENDESA, S.A. decided to formally adapt their historical commitment to respect for and the promotion of human rights to this new framework, integrating it into the management of business activities.

Thus, in 2013 the Board of Directors of ENDESA, S.A. approved the following human rights policy, in line with the recommendations established in the Guiding Principles. This policy covers the commitment and responsibilities of ENDESA, S.A. with regard to all human rights, especially those that affect its business activity and operations carried out by ENDESA, S.A. workers, whether executives or employees. In addition, the Company encourages its contractors, providers and trade partners to adhere to the same principles, focusing particularly on conflictive and high-risk situations. That policy is applicable at ENDESA and all of its investee companies.

The policy consists of eight principles covering two large areas, which are labour practices and communities and companies:

Labour practices:

- Freedom of association and collective bargaining.
- Rejection of forced or mandatory labour and child labour.
- Respect for diversity and non-discrimination.
- Occupational health and safety.
- Fair and favourable working conditions.

Communities and societies:

- Respect for community rights.
- Integrity: zero tolerance against corruption.
- Privacy and communications.

This policy can be found at www.endesa.es.

With the aim of applying the commitments included in its human rights policy, and following the recommendations of the Guiding Principles, ENDESA, S.A. is committed to establishing appropriate due diligence processes that guarantee their implementation and tracking, thereby evaluating any existing effects and risks associated with human rights and implementing measures to mitigate these.

Along these lines, ENDESA, S.A. carried out a due diligence process in 2017 to assess the level of compliance with its policy and the Guiding Principles. This process has been implemented throughout its business activities in Spain, including those of its investee companies, with respect to electricity generation, distribution and supply activities, as well as supply chain management, asset purchasing processes and corporate functions.

This process was developed initially by identifying the level of country risk, with a subsequent assessment of the real and potential impacts of the activities of ENDESA, S.A. on human rights and, finally, by designing an action plan.

Given that the main matters relating to Human Rights at ENDESA, S.A. concerned the operation of its investee companies, details of the process for evaluating, identifying improvement opportunities and designing the action plan are set out in the chapter on Respecting Human Rights in the Statement of non-financial information and information regarding diversity in the consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

2. Cases of Discrimination and Corrective Measures Undertaken.

In 2017, there was one complaint and ENDESA, S.A. regarding mobbing or corporate climate and human rights management, but it was shelved as it was deemed to have no grounds.

CORPORATE GOVERNANCE

1. Diversity of Competences and Viewpoints of Members of the Boards of Directors, Management and Supervision by Age, Gender and Educational and Professional Background.

1.1. Breakdown of the highest governing body.

Breakdown of ENDESA's Board of Directors at 31-12-2017			
Position on the board	Name or corporate name of director	Category of director	Date of the first appointment
Chairman	Borja Prado Eulate ⁽¹⁾	Executive	20/06/2007
Deputy Chairman	Francesco Starace	Proprietary	16/06/2014
Chief Executive Officer	José D. Bogas Gálvez	Executive	07/10/2014
Director	Alejandro Echevarría Busquet	Independent	25/06/2009
Director	Ms Helena Revoredo Delvecchio	Independent	04/11/2014
Director	Miquel Roca Junyent	Independent	25/06/2009
Director	Ignacio Garralda Ruiz de Velasco	Independent	27/04/2015
Director	Francisco de Lacerda	Independent	27/04/2015
Director	Enrico Viale	Proprietary	21/10/2014
Director	Alberto de Paoli	Proprietary	04/11/2014
Director	Ms Maria Patrizia Grieco	Proprietary	26/04/2017
Secretary	Borja Acha Besga	-	01/08/2015

(1) Appointed as Chairman on 24/03/2009.

Directors	Qualifications and Skills					Diversity			
	Finances and Risks	Engineering	Legal	Management	Strategy	Years in the Position	Nationality	Gender	Age
Borja Prado Eulate	✓	□	✓	✓	✓	10	ESP	H	61
Francesco Starace	✓	✓		✓	✓	3	ITA	H	62
José D. Bogas Gálvez	✓	✓		✓	✓	3	ESP	H	62
Alberto De Paoli	✓	□		✓	✓	3	ITA	H	52
Miquel Roca Junyent	✓	□	✓	✓	✓	8	ESP	H	77
Alejandro Echevarría Busquet	✓	□		✓	✓	8	ESP	H	75
Maria Patrizia Grieco	✓	□	✓	✓	✓	1	ITA	M	65
Enrico Viale	✓	✓		✓	✓	3	ITA	H	60
Helena Revoredo Delvecchio	□✓	□		✓	✓	3	ARG	M	70
Ignacio Garralda Ruiz de Velasco	✓	□	✓	✓	✓	2	ESP	H	66
Francisco de Lacerda	✓	□		✓	✓	2	PORT	H	57

1.2. Appointment and Selection of the Highest Governing Body.

Article 9 of the Board of Directors' Regulations- Selection, appointment, ratification and re-election of directors stipulates that: *"At the proposal of the Appointments and Remuneration Committee, the Board of Directors will approve a specific and attestable policy for selecting candidates for the role of director, which ensures that the proposed appointments of directors are based on a prior analysis of the Board's requirements, and favours diversity of knowledge, experience and gender"*.

To this end, on 10 November 2015 the Board of Directors approved a policy for the selection of Board Members (modified on 18 December 2017 to improve the technical contents of the policy and adapt to best practices of corporate government) that is concrete and verifiable and intends to integrate distinctive professional and management experience and expertise (including economic-financial and legal experience and expertise and that specifically associated with Company business) while promoting, insofar as possible, gender and age diversity.

Likewise, pursuant to article 9 of the Board of Directors' Regulations, *"proposals for the appointment, ratification or re-election of directors formulated by the Board shall be made in respect of persons of recognised prestige, who possess the adequate professional experience and knowledge to perform their duties, and who assume a commitment of sufficient dedication to*

perform the tasks of the former.

The General Shareholders' Meeting or, in its absence, the Board of Directors shall have the authority to appoint the members in accordance with the Spanish Corporate Enterprises Act and the Articles of Association. The position of director may be renounced, revoked and re-elected.

The proposed appointment, ratification or re-election of directors made by the Board of Directors to the General Shareholders' Meeting, or which the Board of Directors itself approves in the first case, shall be made at the proposal of the Appointments and Remuneration Committee, in the case of independent directors, and following a report by said Committee for all other types of directors".

1.3. Diversity in Governing Bodies.

Article 5 of the policy for the selection of directors (approved on 10 November 2015 and modified on 18 December 2017, with the aim of improving the technical content of the policy and adapting it to the best corporate governance practices) sets forth the Company's commitment to promote gender diversity: *"ENDESA is convinced that diversity, in all its facets and at all levels of its professional team, is an essential factor to ensure the Company's competitiveness and a key component of its corporate governance strategy that not only encourages critical stances, but also the expression of diverse viewpoints and positions and the analysis of their positive and negative characteristics.*

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximising the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the Organisation, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the director selection policy will promote the goal of ensuring that the number of female directors represents, at least, 30% of the total members of the Board of Directors by 2020".

FIGHT AGAINST CORRUPTION AND BRIBERY

1. Material Aspects, Action Plans, Objectives and Results.

Integrity and ethical behaviour are fundamental pillars that guarantee responsible management of a Company. In recent years, the ethical conduct of listed companies has come under increased scrutiny by markets, regulators and society in general. Among other factors, the financial performance of ENDESA, S.A. is conditioned by strict compliance with ethical standards and principles, both internally and as regards its external relationships. Thus, ENDESA, S.A.'s ethical conduct has paved the way for the generation of trust among its shareholders and investors, and has become a differentiating factor of the company brand in building investee company customer loyalty, evidenced by its economic results which, in turn, contribute to consolidate ENDESA, S.A.'s leadership and benchmark status in the market.

Enquiries conducted by ENDESA, S.A. in 2017 with its most significant stakeholders revealed the following primary aspects associated with management of integrity and ethical conduct: integrity in the organisational model and management of good corporate conduct, transparency in communications (financial, tax-related and sustainability) and relationships with institutions.

Through its Sustainability Plan and the implementation of an ethics compliance model, ENDESA, S.A. has responded to these expectations and establishes objectives and actions in this respect at the corporate level to be followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the corporate governance objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Fighting corruption and bribery in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Policies implemented by the Company regarding Corruption and Bribery.

ENDESA, S.A. is fully committed to complying with the ethical principles and all current legislation and regulations governing its relationships with its stakeholders, and in all the activities it undertakes.

The Company has in place a Code of Ethics, a Zero Corruption Tolerance Plan and other rules, in accordance with the most advanced "compliance" models, which set forth the values, commitments and ethical responsibilities taken on by all its employees. Furthermore, among other aspects, ENDESA, S.A. has established specific procedural protocols to guide the actions of its employees in relation to the acceptance and offering of gifts and courtesies, and to dealings with civil servants and authorities.

Likewise, ENDESA, S.A. has a criminal offence prevention model that complies with the regulations applicable to the Group in the area of the criminal liability of the legal entity. The document entitled "General Principles for the Prevention of Criminal Risk" contains a summary of the guiding principles of action also applicable to all employees. These encompass the key Company values to achieve its business objectives and to prevent the occurrence of criminal risks within the Company.

The Code of Ethics, the Zero-Tolerance Plan Against Corruption, the General Principles for Criminal Risk Prevention, the Protocol for Best Practices in Dealing with Civil Servants and Public Authorities and the Corporate Integrity Protocols can be found on the website: <https://www.endesa.com/es/inversores/a201611-conducta-etica.html>.

2.1. Code of Ethics.

The Code of Ethics is comprised by:

- 16 General Principles governing relations with stakeholders that define benchmark business values at ENDESA, S.A.
- The Standards of Conduct for dealing with each stakeholder, enshrining the specific guidelines and rules which ENDESA, S.A. professionals must adhere to in order to uphold the general principles and avoid unethical conduct.
- The Implementation Mechanisms, describing the organisational structure of the Code of Ethics, responsible for ensuring that all employees are aware of, understand and comply with the Code.

Likewise, as established by the Code of Ethics, ENDESA, S.A. does not finance political parties, their representatives or candidates, either in Spain or abroad, nor does it sponsor conferences or parties whose sole purpose is political propaganda.

It abstains from any manner of direct or indirect pressure on political exponents (e.g., resulting from public tender awards to ENDESA, S.A., acceptance of suggestions for contracts, consultancy agreements, etc.).

2.2. Zero Tolerance Plan against Corruption.

ENDESA, S.A. has an anti-corruption plan in place: the Zero Tolerance Plan against Corruption, which represents the Company's specific commitment to the fight against corruption and its total rejection of any of its forms, in compliance with Principle 10 of the Global Compact, of which ENDESA, S.A. is a signatory: "Businesses should work against corruption in all its forms, including extortion and bribery".

2.3. Anti-Bribery Policy.

In 2017, the "Criminal and Anti-Bribery Regulatory Compliance Policy" was included in these internal regulatory instruments which, together with those cited above, constitute the ENDESA, S.A. Group's "Criminal and Anti-Bribery Regulatory Compliance Management System", which is an integrated body of provisions that not only comply with the Spanish legal requirements in this area, but which are also sufficient to meet the expectations reasonably deposited in the organisations that operate with the highest levels of commitment in advanced markets as ENDESA, S.A. does.

ENDESA, S.A. is aware that certain criminal acts identified under the generic name of "bribes" constitute a phenomena which, among other effects, raises serious moral, economic and political concerns, undermines good governance, hinders development, destroys confidence in the institutions and interferes in the correct and efficient functioning of markets. Accordingly, the Criminal Regulatory Compliance System pays special attention to the prevention, detection and adequate reaction against such strictly forbidden conduct, transmitting the importance of the contribution of the entire organisation to the fight against all manner of "bribery".

The main procedures that ENDESA, S.A. will perform on an on-going basis to effectively apply the Criminal Regulatory Compliance System are as follows;

- Evaluation of risks and control activities. The identification of activities in which criminal offences may be committed are coordinated by the Supervision Committee and by the process heads within the Organisation.
- Supervision activities: Criminal Regulatory Compliance System, action plans to affront shortcomings, response to non-compliance and information and communication.

2.4. Criminal Risk Prevention Model.

ENDESA, S.A. has a Criminal Risk Prevention Model (the Model), which provides the Company with a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the Company, complying with the Spanish Criminal Code on the criminal liability of legal persons, a system introduced into the Spanish legal system in 2010.

The Audit and Compliance Committee is tasked with supervising the functioning of and compliance with the Model and the functions of the Supervision Committee, responsible, among other tasks, for the monitoring of and compliance with the Model. The Supervision Committee consists of the Audit Director, the General Secretary and Secretary of the Board of Directors (who is the Committee Chair), the Director of Corporate Legal Counsel and Compliance, the Director of Business Legal Counsel and the Director of Human Resources and Organization.

In 2017, the Supervision Committee met on six occasions and, at those sessions, it monitored the main matters relating to the Model, even envisaging the involvement of heads from different areas of the Company to inform the Committee on significant matters relating to its competencies.

At the beginning of each year, the Supervision Committee prepares an Activity Programme, in which it establishes priorities in line with qualitative criteria based on a risk approach, for the development of which, and based on the powers granted and on the specialisation required, it leans on the Audit, Legal Counsel and Corporate Matters and the Human Resources and Organisation Departments. Furthermore, once a year, it submits a report on the execution of the programme to the Audit and Compliance Committee, including details of the activities performed and the conclusions reached.

Noteworthy among the activities performed in 2017 were as follows:

- The review, update and assessment of events involving the risk of offences and the adaptation and update of their mitigating controls included in the Model's matrix;
- Verification of the adequate effectiveness and functioning of the Criminal Risk Prevention Model, through a review of the adequate design and operation and testing of certain control activities;
- The performance of various initiatives aimed at informing and training employees on the framework of ethical reference and of criminal prevention compliance in force at ENDESA, S.A.
- The simultaneous obtainment of the certificates accrediting the Criminal Compliance Management System, in accordance with the UNE 19601:2017 standard and an anti-bribery management system in conformity with the UNE-ISO 37001 standard.

Of the activities performed in the year, it was concluded that the Criminal Risk Prevention Model at ENDESA, S.A. is operative at all significant Group companies, and that it is being effectively executed and is generally suitable to reduce the risks of committing offences defined in the applicable regulations.

3. Cases of Corruption Complaints and Corrective Measures taken.

In 2017, ENDESA, S.A. received a total of 3 complaints, either through its Ethical Channel or through other means. The investigation of all of them was completed in the same year. Of the complaints received, there were no verified cases of non-compliance with the Code of Ethics relating to Company fraud and conflicts of interest. None of the complaints received related to cases of discrimination.

ENVIRONMENTAL SUSTAINABILITY

1. Business Model.

Impacts, risks and opportunities of Greenhouse Gas (GHG) emissions, scope 1, of the reduction of Greenhouse Gas (GHG) emissions, of the impact of Greenhouse Gas (GHG) emissions arising from transportation and from the consequences of climate change).

For ENDESA, S.A., the fight against climate change is one of the greatest challenges that must currently be faced by companies, and the electric utility is aware that the energy sector is one of the most affected industries.

ENDESA, S.A. occupies a leading position in the fight against global warming by the European Union. In this context, the challenge of the decarbonisation of the energy mix is examined, together with the opportunities arising from such challenge.

Strategic Plan implemented by ENDESA, S.A. aims to consolidate its leadership position on the markets in which it operates through investee companies, taking into account the impact of climate change on the energy business model and the transition to a new energy eco-system, reducing the risks represented by its business, and maximising the opportunities that will be offered by this transition and this new eco-system.

ENDESA, S.A. has an ambitious plan to reduce emissions for the decarbonisation of its energy mix in 2050, in line with the targets set at Spanish and European level with the 2050 Road Map and the 2030 Energy and Climate Package.

The strategy implemented by ENDESA, S.A. is to invest in low-coal generation technologies and to increase the value of coal-free energy production through its investee companies. Increased public incentives to invest in smart grids and renewable energies represent an opportunity for ENDESA, S.A. Accordingly, in 2016, ENDESA Generación, S.L.U. acquired 60% of the share capital of ENEL Green Power España, S.L.U., a company in which it previously held a 40% holding, in order to comply with the 2050 decarbonisation objective. This investment is the result of the commitment acquired by the Company in the search for new opportunities and technologies that generate value and with respect to which it will continue to work in the future.

In order to consolidate its commitment to the decarbonisation road map, ENDESA, S.A. awarded 879 MW of wind and solar power in the 2017 auctions, through ENEL Green Power España, S.L.U., in which it expects to invest 870 million euros until 2020.

It is important to highlight that the decarbonisation drive at European level has, to date, focused especially on the energy sector, giving increasing significance to the policies tied to the transport sector, responsible for almost 25% of total emissions in the European Union, with road transport being the highest emitter, with more than 70% of total transport GHG emissions in 2014.

Recently, a provisional agreement was approved on the regulations to distribute the drive to guarantee new emission reductions in sectors outside the scope of the European Union's emission rights trading system for 2021-2030. The goal of the European Union to reduce emissions in non-ETS sectors is 30% for the 2021-2030 period. To ensure fair distribution of diffuse emission reduction efforts, the new regulation establishes binding goals so countries comply with the European target. Spain must reduce its CO₂ emissions associated with the non-ETS sector by 26% with respect to its 2005 levels, by 2030, under the agreement reached, which maintains the distribution initially proposed by the European Commission, as confirmed by the institution and European sources.

Transport emissions in Spain have increased nearly 50% since 1990. The transport industry is one of the main sources of carbon dioxide (CO₂) emissions in the Spanish economy, representing nearly 27% of all emissions, according to the Provisional Results of the Greenhouse Gas Inventory (GGE) published in 2016 by the Ministry of Agriculture and Fishing, Food and the Environment (MAPAMA). Therefore, one of the basic objectives of the future Climate Change and Energy Transition Act will be to promote a policy for sustainable transport and mobility.

For all the aforementioned reasons, the fundamental challenge of developed societies regarding mobility is to evolve towards low coal consumption economic models and to reduce pollution, primarily in cities. ENDESA, S.A. aspires to lead the response to this challenge by promoting electrification of the energy demand and efficient consumption, by developing plans and programmes intended to enhance electrical mobility, smart grids and energy efficiency.

2. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified the decarbonisation of the energy mix and the minimisation of environmental impacts as the most significant environmental aspects to promote a sustainable business model and, accordingly, with respect to which the businesses carried out by its investee companies must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

ENDESA, S.A. includes the material aspects detected in its corporate sustainability plans and establishes quantitative objectives intended to encourage management excellence within those plans, thereby allowing the level of commitment and performance achieved to be measured at the corporate level and followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the environmental sustainability objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Environmental Sustainability in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

3. Environmental Policy.

ENDESA, S.A. approved and published its first environmental policy in 1998. Since then, it has evolved to adapt to the current environmental concerns.

ENDESA, S.A. considers environmental excellence to be a fundamental value in its business culture. Accordingly, it performs its activities by respecting the environment, in line with sustainable development principles, and is firmly committed to the conservation and sustainable use of its resources. Its policy is based on nine basic procedural principles, as detailed below, which refer to the Company and its investee companies:

- Integration of environmental management and the concept of sustainable development into corporate strategy, using environmental criteria documented in the planning and decision-making processes, and in the analyses of new business opportunities, mergers or new acquisitions.
- Permanent monitoring, at all locations, of compliance with the legislation in force and with the voluntary agreements acquired, and regular reviews of its plants' environmental performance and safety, reporting on the results obtained.
- Establishment of adequate management systems, based on continual improvement and aimed at preventing pollution.

- Sustainable use of energy and water resources and raw materials, and the measurement and reduction of the environmental impact by applying the best techniques and practices available.
- Protection, preservation and enhancement of biodiversity, ecosystems and its services during operations associated with its business; reducing negative impacts to a minimum and compensating for residual impact, focused on the goal of No Net Loss of Biodiversity.
- Contribution to the fight against climate change through gradual decarbonisation of the energy mix, fostering the development of renewable energies, energy efficiency and the application of new technologies.
- Awareness raising of and sensitivity to environmental protection issues, through internal and external training programmes and collaboration with public-sector authorities, institutions and citizens' associations in all areas in which it is active.
- Establishment of a constructive dialogue with public authorities, official bodies, shareholders, customers, local communities and other stakeholders.
- Encouragement to contractors and suppliers to implement environmental policies based on these same principles.

4. Key Performance Indicators.

These key environmental performance indicators at ENDESA, S.A. derived from the activities carried out by its subsidiaries, given that the consumption of fuel, energy, energy intensity, water, admissions and impact on air quality by ENDESA, S.A. is irrelevant compared to that of its investee companies, which are those that carry out operating industrial activities with relevant impacts on these indicators. The monitoring of these indicators is therefore performed on a consolidated basis. For further information see the chapter on Environmental Sustainability in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

HUMAN RESOURCES

1. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified the development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Promotion of human capital: For ENDESA, S.A. its employees constitute the main company asset to create value in a sustainable manner. Likewise, in a climate of change towards a new energy model, having human capital with the best abilities, which is as diverse as possible and shows a strong commitment to the business project, is fundamental to lead such change. Accordingly, employment priorities at ENDESA, S.A. include management of diversity (especially gender and age), the reinforcement of internal culture, the availability of adequate work conditions, employment flexibility and meritocracy.

ENDESA, S.A. includes these priorities in its sustainability plans and establishes quantitative objectives at the corporate level to encourage management excellence in the human capital area, thereby allowing the level of commitment and performance achieved by ENDESA, S.A. and all of its investee companies to be evaluated.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the Human Resource objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Human Resources in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Human Capital Policies.

ENDESA, S.A. constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. In this regard, its Leadership Model and the Development of Talent, together with the *performance appraisal* processes and the development of people with potential guarantee development based on merit and on the contribution itself. Likewise, considering that the digital transformation means that the Company must adapt its value proposal to the new digital customer and adopt new technologies in its value chain, one of the leading challenges for the Company is the development of this digital culture. In this regard, ENDESA, S.A. is working to promote the change of the organisational culture and the way of doing of the Company.

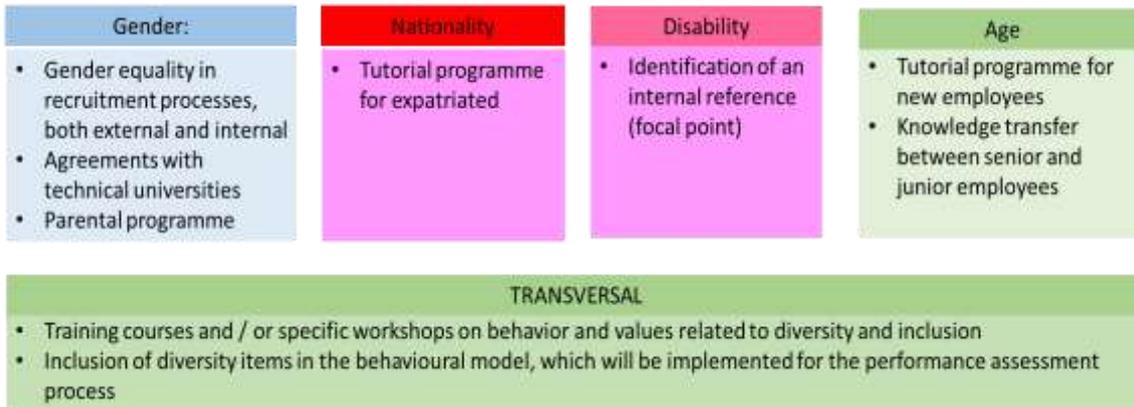
In the training area, ENDESA, S.A. establishes an annual plan to ensure the proper development of people within its Organisation, and to encourage the professional development of its staff.

Likewise, ENDESA, S.A. rejects all manner of discrimination and undertakes to guarantee and promote diversity, inclusion and equal opportunities. ENDESA, S.A. will do everything possible to encourage and maintain a climate of respect for the dignity, honour and individuality of people, and will ensure the highest standards of confidentiality with respect to any information related to employee privacy, of which it is aware. Also in compliance with the values and principles included in the Code of Ethics, and as a part thereof, ENDESA, S.A. adopts the following main principles:

1. Non-discrimination
2. Equal opportunities and dignity for all forms of diversity
3. Inclusion

4. Reconciliation of personal, family and professional life

On the basis of these principles, ENDESA, S.A. is committed to implementing specific measures to promote non-discrimination and inclusion in the following areas of diversity, by establishing the following plan of action:



In the same line, ENDESA, S.A. promotes gender equality in all areas of the Company, especially regarding positions of responsibility and employee recruitment.

ENDESA, S.A. guarantees the right to freedom of association for its employees and for all its contractors and suppliers.

3. Key Performance Indicators.

3.1. Newly Hired Employees / Workforce Rotation.

New hires are an important indicator, as provide a measurement of the Company's renewal and its adaptation to new trends.

New Recruitments	
2015	28
2016	39
2017	40

ENDESA, S.A. wishes to be an excellent company to work for, directly leading to a low staff turnover. The employee turnover rate in Spain in 2017 was 11.8, within the values expected by the Company.

3.2. Prior Notice Period for Operational Changes.

Existing Spanish employment legislation and the employment regulations followed by ENDESA, S.A. in Spain establish the criteria that should be adhered to in the event of business reorganisation and corporate restructuring. Thus, regulations establish that corporate restructuring and company reorganisation operations shall be made known to employee representatives at least 30 days before they come into effect.

3.3. Average Hours of Individual Employee Training per Year.

Having a trained workforce, constantly adapted to the new requirements for which the sector must be prepared, is a strategic pledge by ENDESA, S.A. to maintain its leadership. Accordingly, the average number of training hours per employee is a piece of data that backs up such strategy.

Average Hours of Individual Employee Training per Year, Broken Down by Gender and Professional Category	
Executives Training	
	2016
Men	23,1
Women	36,8
	2017
Men	41,3
Women	50,8
Middle Management Training	
	2016
Men	54,5
Women	53,8
	2017
Men	55,2
Women	53,5
Administration and Management Personnel Training	
	2016
Men	37,9
Women	35,1
	2017
Men	48,6
Women	37,3
Manual Worker Training	
	2016
Men	17
Women	-
	2017
Men	-
Women	-

3.4. Employee Diversity.

ENDESA, S.A. is also committed to diversity among its employees, as it believes that diversity is a significant contribution that serves to fortify the Company. The figures presented below show that over the past three years the percentage of women represent approximately 50% of the headcount, which is very notable and shows the company's firm commitment to gender diversity. With regard to age, they reflect a solid safe company in terms of senior staff which, at the same time, is gradually being renewed.

Breakdown of the Headcount by Gender			
	Year	Number	%
Women	2015	693	49,90%
	2016	712	51,20%
	2017	695	51,10%
Men	2015	697	50,10%
	2016	679	48,80%
	2017	665	48,90%
Total Staff	2015	1.390	
	2016	1.391	
	2017	1.360	

Breakdown of the Headcount by Age		
	Year	Number
Under 28 years old	2015	25
	2016	22
	2017	24
28-34 years old	2015	146
	2016	122
	2017	100
35-44 years old	2015	515
	2016	522
	2017	523
45-54 years old	2015	477
	2016	482
	2017	488
55-59 years old	2015	209
	2016	202
	2017	181
Above 60 years old	2015	18
	2016	41
	2017	44

3.5. Cases of Discrimination and Corrective Measures Undertaken.

In 2017, there were no cases of discrimination at ENDESA, S.A., a fact which the Company periodically reports to its employee representatives.

4. Measures Adopted to Guarantee Equality.

4.1. Explanation of the Concepts of Diversity and Non-Discrimination.

The Diversity and Inclusion programmes are encompassed with the Human Rights policy approved by ENDESA, S.A on 24 June 2013, which includes respect for diversity and non-discrimination among its principles, with ENDESA, S.A. rejecting all manner of discrimination and maintaining its commitment to ensure that all employees, both current and potential, are treated with respect regarding their diversity, thereby promoting equal opportunities, be it on entering into an employee relationship or at any stage of their development.

The general principles followed by the Diversity and Inclusion programmes are as follows:

Non-discrimination

All employees are treated solely on the basis of their professional skills and abilities in all decisions affecting their employment relationship.

Accordingly, all manner of political, religious, national, ethical, racial, linguistic, gender or age discrimination is forbidden, together with any form of discrimination against personal characteristics such as personal beliefs, sexual orientation, trade union membership and activity, and any other form of social discrimination.

Under such principles, no type of harassment or intimidation will be acceptable.

Equal opportunities and dignity for all forms of diversity

Diversity is a value that should be sought after and enhanced and equal treatment and opportunities shall be guaranteed for all types of diversity.

Moreover, personal circumstances associated with reconciliation of personal, family and professional life shall not be construed as a reason for less favourable treatment.

Inclusion

ENDESA, S.A. is committed to establishing measures, practices, processes and services, with no restrictions of access to any of the parties involved, whether employees, customers or contractors.

All these persons shall have the opportunity to participate in the Company's processes and there shall be no explicit or implicit barriers for any unit, function, country, gender, religion, culture, belief, orientation, disability, age or any other manifestation of diversity.

Reconciliation of personal, family and professional life

ENDESA, S.A. promotes work-life solutions that support the actual daily needs of employees, in order to foster respect for all manner of situations facing people during their working life.

4.2. Explanation of How the Organisation Manages Diversity and Non-Discrimination.

ENDESA, S.A. defines its action plan for diversity and inclusion as follows:

Gender; in order to acknowledge, respect and manage the differences between men and women, while guaranteeing the development of talent and ensuring equal opportunities and treatment, the following measures are implemented:

- In both internal and external recruitment processes, Human Resources guarantee that there is equal representation of both sexes over the entire population under assessment during the initial stage of the process. When this is not possible, the reason is specified and registered.
- Human Resources establishes individual relationships with universities, aimed at identifying programmes and opportunities for collaboration that encourage participation and inclusion of female students, especially in colleges and technical schools.
- At ENDESA, S.A. parental programmes have been implemented, aimed at balancing the needs that people have as parents and their professional growth aspirations. They consist of a series of structured interviews between employees, their managers and Human Resources Business Partners (hereinafter, HRBP, who are the human resources professionals that work closely with the business line to identify its needs and cover them), optimising the professional development, well-being and satisfaction of employees) before and after maternity, to increase their value, both for the employee and for the Company. Furthermore, a tutor is assigned, on a voluntary basis, to employees that expect to request maternity leave.

Age; in order to acknowledge, respect and manage the differences between generations, guaranteeing the integration, motivation and transfer of knowledge, the following measures have been implemented:

- A tutorial programme has been implemented to support employees in their main transition periods (for example, during their recruitment). Such tutorial may be voluntarily requested, for a variable duration, based on the needs of each specific situation.
- The development of professional families was ensured by relying as far as possible on expert (senior) employees, who have conducted internal training.

Nationality; with the aim of recognising, respecting and managing differences between persons of different nationalities and fostering their integration, all expatriates were assigned a tutor from the country of destination to assist and support them during the period they were abroad.

Disability; in order to acknowledge, respect and manage the different disabilities of people within ENDESA, S.A., taking advantage of each person's potential, a reference person has been identified with respect to the disability. These persons provide support for the Human Resources Business Partners (*HRBP*), the corresponding Health and Safety units and managers and employees to deal with any matters concerning the disability in question and specifically for individuals with disabilities that impede the fulfilment of their needs and ambitions.

Transversal dimension; specific training workshops and/or courses on conduct and values regarding Diversity and Inclusion have been set up, especially for the professional family at Human Resources, newly hired employees and new managers.

Application of the Diversity and Inclusion Policy.

ENDESA, S.A. has drawn up a gender plan of action that includes the following lines of work:

- Increasing the percentage of women in the recruitment processes: fostering gender equality in recruitment processes, both external and internal, in the shortlist stage, that is, when deciding on the group of candidates who are eligible for interviews to select the final candidates.
- STEM: promoting agreements with universities and institutions to encourage the participation of female students in STEM studies (science, technology, engineering and mathematics).
- Parental programme: implementation of a programme aimed at balancing the needs that employees have as mothers and fathers and their professional growth aspirations.

5. Measures Taken to Apply the International Employment Conventions at the Company (ILO; OECD).

ENDESA, S.A. promotes respect for human rights, taking as a base, all agreements established by the International Labour Organisation (ILO), in all its commercial relations, the compliance of its contractors, providers and trade partners with the same principles, focusing particularly on conflictive and high-risk situations, the rejection of forced or mandatory labour and child labour, respect for diversity and non-discrimination, freedom of association and collective bargaining, occupational safety and health and fair and favourable working conditions.

For more information in this regard, please refer to Section Evaluation of ENDESA business activity, Labour Relations scope of application.

5.1. Employee Training on Human Rights Policies and Procedures.

Until now ENDESA, S.A. has not provided any specific comprehensive human rights training, although certain human rights matters have been directly and indirectly addressed in other courses given in 2017. However, in 2018, the Company will provide a special course on human rights aimed at all its employees.

For further information see the chapter on Human Resources in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

6. Company Management of the Right of Workers to be Informed and Consulted.

ENDESA, S.A. maintains a permanent dialogue with worker representatives, through which it seeks to establish collaboration that will benefit both the company and its employees. This dialogue complies with the rights to information and consultation of Employees' Representatives and includes negotiation of workers' conditions, if necessary.

As indicated in Point 3.2, ENDESA, S.A. complies with existing regulations and informs the Employees' Representatives of any changes in the organisation and the Company at least 30 days in advance.

Furthermore, the Company frequently performs a climate survey, whereby it identifies improvement areas on which to work to correct anything required.

The Managing Director also holds breakfast meetings with employees, where the latter can express their concerns and suggestions directly.

6.1. Inclusion Principle. How the Organisation has Responded to the Reasonable Interests and Expectations of Employees.

ENDESA, S.A. takes the steps required to respond to the improvement areas identified through the climate survey.

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

Similarly, different bodies exist at the Company to affront the negotiation processes required to adapt to Company needs.

As regards current labour regulations, the Company also complies with the rights to information and consultation of the Employees' Representatives, providing necessary information and counsel so the Employees' Representatives can carry out their labour union activities.

Lastly, it must be highlighted that in 2017 ENDESA, S.A. carried out various internal communication campaigns, such as work-life balance programmes, in order to promote the measures available for employees; another campaign on diversity, which includes the four main dimensions (gender, age, nationality and disability), and the launch of a survey to ascertain employee perception of internal notices.

OCCUPATIONAL HEALTH AND SAFETY (OHS)

1. Material Aspects, Action Plans, Objectives and Results.

In 2017, ENDESA, S.A. identified occupational health and safety, together with development, management and motivation of human capital as the most significant employment aspects to promote a sustainable business model and, accordingly, with respect to which the Company must continue to progress in order to comply with the expectations of the stakeholders in the enquiries made within the framework of the 2017 materiality study.

Occupational Health and Safety: The optimal management of occupational health and safety has a direct effect on the economic performance of companies, since it increases productivity and reduces associated employment costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA, S.A. and the work that they perform. Consequently, this aspect is the fundamental pillar of sustainability at ENDESA, S.A., contributing to the Company's operating excellence.

ENDESA, S.A. includes these priorities in its sustainability plans and establishes quantitative objectives at the corporate level to improve occupational health and safety, thereby allowing the level of commitment and performance achieved by ENDESA, S.A. and all of its investee companies to be evaluated.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and the Health and Safety objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Health and Safety in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Policies Implemented by the Company regarding Employee Occupational Health and Safety (OHS).

ENDESA, S.A. considers Occupational Health and Safety a priority and a fundamental value to preserve at all times for all who work for the Company, without distinction between own staff and its partner companies.

The integration of this goal in the strategy followed by ENDESA, S.A. materialised through the implementation of Occupational Health and Safety (OHS) policies at all the companies comprising the Group, the implementation of specific employment plans and the implementation of a single global system for observing work conduct.

ENDESA, S.A. also carries out various annual initiatives in its long-term strategy of continuous improvement in Occupational Health and Safety (OHS). The activities performed in 2017 were as follows:

- Once the phase of issuing reports corresponding to the Assessment of Psychosocial Risks has been concluded, in which the factors corresponding to all ENDESA, S.A. companies have been analysed, those preventive measures considered to positively lead to a reduction of the burden of psycho-social factors in occupations have been included in the preventive planning of all businesses. Likewise, a method has been designed to assess the effectiveness of the implementation of such measures at the Organisation.
- In line with the outcome of the 2016 Occupational Health and Safety (OHS) Climate survey, and following the identification of the different improvement aspects, in 2017, a series of

measures were taken of a diverse nature to foster knowledge, preventive culture and commitment in occupational risk prevention.

- Monographic sessions were held at the Staff Departments at ENDESA, S.A., and occupational and office risk awareness-raising campaigns were conducted.

3. Key Performance Indicators.

3.1. Types of Accidents and Frequency Rates, Occupational Diseases, Days Missed, Absenteeism and Number of Deaths due to Occupational Accidents or Diseases.

One of the material aspects identified by ENDESA, S.A. was Occupational Health and Safety (OHS). The optimal management of occupational health and safety has a direct effect on the economic performance of ENDESA, S.A., and on the attainment of its strategic objectives. The occupational health and safety (OHS) commitment of employees and contractors increases productivity and reduces absenteeism and associated indemnity costs. Also, it notably contributes to encourage the loyalty and commitment of employees to ENDESA, S.A.

Accordingly, the following indicators are of the utmost importance for the Company, so they are monitored monthly, reflecting the Company's management in this regard.

	No. of Occupational Accidents ⁽¹⁾			Frequency Index ⁽²⁾			Seriousness Index ⁽³⁾		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
SPAIN	8	4	5	2,03	1,01	1,26	0,13	0,02	0,08
In House	-	-	-	0,00	0,00	0,00	0,00	0,00	0,00
Contractors	8	4	5	5,21	2,42	3,07	0,32	0,05	0,2

(1) Includes fatal accidents.

(2) Total number of accidents, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000,000.

(3) Total number of days missed due to accident, excluding those *in itinere*, with respect to the total number of hours worked, multiplied by 1,000.

Absence Rate of ENDESA Employees ⁽¹⁾ (T.A. ⁽²⁾) ⁽³⁾			
	2015	2016	2017
Spain	2,33	2,35	2,22

(1) The days missed due to absence do not include holidays, public holidays, or authorised absence for family motives (maternity and paternity leave etc.), or training leave.

(2) Total number of working days missed through absence in the year with respect to the total number of days worked by group in this same period, multiplied by 200,000 (this factor corresponds to 50 working weeks of 40 hours for each 100 employees).

This Absenteeism rate does not include proportionately consolidated jointly controlled entities.

Days Missed Due To Absence Per Year			
	2015	2016	2017
Spain	8,422	8,078	7,644

	Fatal Accidents			Serious Accidents			Non-Serious Accidents		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
SPAIN	-	1	-	-	-	1	8	3	4
In House	-	-	-	-	-	-	-	-	-
Contractors	-	1	-	-	-	1	8	3	4

RESPONSIBLE RELATIONSHIP WITH THE COMMUNITIES

1. Material Aspects, Action Plans, Objectives and Results.

The Company has currently been strengthened, mainly due to the development of communication technologies that have increased connectivity between people and facilitated access to information. That has contributed to increase the willingness of local communities to actively participate in those matters that may affect them positively or negatively to a greater or lesser extent.

Moreover, social opposition to certain projects carried out by investee companies could generate costs associated with the delay in project execution or even lead to the actual freezing of such projects and, in any case, to a loss of confidence and social legitimacy vis-à-vis the Company.

Accordingly, in order to guarantee the sustainability of its business projects, the investee companies in which ENDESA, S.A. participates must integrate the expectations of its stakeholders at local level from the beginning, fostering the development of dialogue and responsible relations with the local communities, applying a Shared Value Creation Approach at all times, through which to generate value for the Company and society.

In this regard, corporate level enquiries conducted by ENDESA, S.A. in 2017 with its most significant stakeholders and its investee companies revealed the following primary aspects associated with management of the local communities: facilitate access to electricity of vulnerable groups, the mitigation of the impact of operations on the local communities and socio-economic development.

Through its Sustainability Plan and the implementation of a Share Value Creation approach, ENDESA, S.A. has responded to these expectations and establishes objectives and actions in this respect at the corporate level to be followed by ENDESA, S.A. and all of its investee companies.

For further information regarding the level of compliance with the Sustainability Plan 2017-2019 and responsible community relationships objectives in the Sustainability Plan 2018-2020, please refer to the chapter on Responsible Community Relationships in the Statement of non-financial information and information regarding diversity included in the consolidated Management Report for ENDESA, S.A. and subsidiaries for the year ended 31 December 2017.

2. Relationship Policy with Local Communities.

ENDESA, S.A.'s commitment to the development of the communities in which it operates is encompassed in the Company's Shared Value Creation policy (SVC), which establishes the general principles, roles, responsibilities and procedures to be used to define, implement, finance, monitor and report the procedures, processes and projects of a social nature, through the Company's entire value chain and in all its business lines and functions.

The Shared Value Creation (SVC) Model pursues including Sustainability into the Company's strategy, increasing its competitive advantages, through the contribution of a shared value perspective that combines Company objectives with the priorities of the stakeholders.

The application of the Shared Value Creation (SVC) Model integrates specific analyses conducted proactively, enabling the obtainment of in-depth understanding of the local context, identifying the key priorities, risks, impacts and stakeholders related with the business asset/project. This is correlated with the Company's objectives. Therefore, actions and projects

are identified that may build long-term relationships with the local surroundings, which are included and specified in a Shared Value Creation (SVC) Plan.

These actions and projects relating to specific business projects/assets included in the Shared Value Creation (SVC) Plan must be aligned with the general strategy of ENDESA, S.A. and with the United Nations Sustainable Development Goals (SDGs), effectively and efficiently taking advantage of and optimising the ability and competency of the Company from an integrated perspective, which generates measured benefits for society, providing a response to its present and future requirements.

3. Key Performance Indicators.

ENDESA, S.A. wishes to play a role that contributes in a positive manner to the companies in which it is included, through its investee companies, going beyond the components of their business activity. This is demonstrated by the Company's social investment data which, according to the methodology of the London Benchmarking Group (LBG), amounts to 13.8 million euros at the consolidated level.

For further information regarding the key performance indicators in the local community relationship area, see the chapter on Local Community Relationships in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

SUPPLY CHAIN

1. Material Aspects, Action Plans, Objectives and Results.

The responsible management of the supply chain, based on the assessment of environmental, social and ethical performance, is today a key factor for the success of any company and long-term growth.

In order to reduce reputational and operational risks, responsible companies provide control mechanisms for purchasing and the arrangement of products and services that enable an assessment of whether the employees that intend to work with the Company comply with the requirements established and are aligned with the sustainable growth objectives and strategy.

Aware of the importance of the supply chain in the sustainable management of its business and that of its investee companies, ENDESA has considered this aspect within the consultation process that was carried out at the corporate level during 2017 with its stakeholders and investee companies, in order to identify the most relevant aspects that must be prioritized. In this regard, the result obtained reveals that the extension of the occupational health and safety commitment to contractors and suppliers is the most important aspect in the supply chain.

However, the control mechanisms of the supply chain established by ENDESA, S.A. and reinforced through the “Sustainable Supply Chain” project are aimed at assessing not only the occupational health and safety parameters, but they also include environmental criteria and criteria of honourability and respect for human rights.

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

ENDESA, S.A. and its investee companies manage suppliers on a centralized basis. Furthermore, the volume of purchases and suppliers at the individual level of ENDESA, S.A. is irrelevant compared to that of its investee companies, which of those that carry out industrial operating activities and have significant purchasing volume requirements. Accordingly, in order to promote the responsible management of the supply chain, ENDESA, S.A. has an integrated purchasing process that it applies to all of its businesses and all of its investee companies. For further information see the chapter on the Supply Chain in the Statement of non-financial information regarding diversity in the Consolidated Management Report for ENDESA, S.A. and Subsidiaries for the year ended 31 December 2017.

2. Policy.

In order to promote responsible management in the supply chain, ENDESA, S.A. and its investee companies has an integral purchasing process, which requires suppliers to be rated in accordance with sustainability criteria (environmental, social, ethical, integrity, human rights), and with technical and economic criteria, prior to the tender process and the signing of the contract.

The supplier rating system in 2017 was applied to a series of strategic purchasing families, for those activities that require major investment and have a greater impact with respect to security and the environment and which, in 2017, accounted for 63% of the total purchasing volume.

The supplier rating system, which commenced in 2009 to reinforce compliance with the applicable legal, employment, security and environmental protection regulations was enacted as envisaged. It determines whether a supplier complies with the requirements to work with ENDESA, S.A. This system specifically assesses, aside from compliance with the legal requirements, economic-

financial solvency and technical capacity, the level of compliance of the supplier in the sustainability area, in line with previously-defined criteria, based on the risk associated with the purchasing family to which the supplier belongs:

- Assessment of compliance with human rights regulations
- Assessment of compliance with environmental regulations.
- Assessment of compliance with occupational safety regulations.

The sustainability requirements for new rating files will enter into force in April 2017, and will apply to all supplier bases in families subject to rating from March 2018.

Furthermore, forming part of the sustainability requirements in the environmental and security areas, the need was established to obtain the related management system certifications in such areas, in conformity with the ISO 14.001 and OHSAS 18001 standards for activities designated as high risk.

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(Free translation from the Original Independent Limited Assurance Report in Spanish dated February 26, 2018. In case of any discrepancy, the Spanish version always prevails.)

INDEPENDENT LIMITED ASSURANCE REPORT ON THE STATEMENT OF NON-FINANCIAL INFORMATION OF ENDESA, S.A.

To the Board of Directors of Endesa, S.A.

Scope of work

We have carried out a limited assurance engagement on the non-financial information contained in the non-financial information statement of ENDESA, S.A. for the year ended December 31, 2017, prepared in accordance with Royal Decree-Law 18/2017 of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures as explained in section 1.5 "Criteria for the preparation of the Statement of non-financial information".

Responsibility of the directors

ENDESA, S.A.'s directors are responsible for the preparation, content, and presentation of the Non-financial Information Statement in conformity with Royal Decree-Law 18/2017, of November 24. This responsibility includes the design, implementation, and maintenance of the internal control considered necessary to ensure that non-financial information statement is free of material misstatement, due to fraud or error.

The directors of ENDESA, S.A. are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information is obtained for preparing the non-financial information.

Our responsibility

Our responsibility is to issue a report of limited assurance based on the procedures we carried out and the evidence we obtained. We have performed our limited assurance work in accordance with the stipulations of International Standard on Assurance Engagements 3000 (ISAE), "Assurance engagements other than Audits and Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

In limited assurance work, the procedures carried out vary in their nature and timing and cover less material than those carried out in reasonable assurance work and, therefore, the assurance provided is also less.

The procedures we carried out for purposes of this engagement are based on our professional judgment and consisted in the formulation of questions for Management and the application of certain analytical procedures and review tests by sampling. Specifically, the following procedures were performed:

- Reading and gaining an understanding of the information prepared by ENDESA, S.A. and included in the non-financial information statement and evaluation as to whether said information encompasses all the content required by Royal Decree-Law 18/2018, of No 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.
- Interviewing those in charge of the preparation of the non-financial information statement for the purpose of gaining an understanding of the policies applicable to ENDESA, S.A. in terms of environmental and social matters, as well as personnel, respect for human rights, the fight against corruption, bribery, and the results of those policies, as well as the principle risks related to these matters.
- Analyzing the processes for compiling and validating the non-financial information contained in the consolidated non-financial information statement.
- Verifying the processes put in place by the Group to determine material matters as well as the participation of stakeholders in them.
- Verifying, via review tests on a sample basis, the quantitative and qualitative information related to the indicators disclosed in the report included the GRI content index, as well as its adequate compilation from data supplied by information sources. The review tests have been defined to provide a limited level of assurance.
- Obtaining a representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the non-financial information statement.

Our independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable.

Conclusions

As a result of the procedures performed and of the evidence obtained, no matter has come to our attention that would cause us to conclude that the non-financial information contained in the non-financial information statement of ENDESA, S.A. for the year ended December 31, 2017 contain significant errors or have not been prepared in accordance with Royal Decree-Law 18/2017, of November 24, which amends the Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by means of Royal Decree-Law 1/2010 and Spain's Audit Act (Law 22/2015) with respect to non-financial and diversity disclosures.



Other matters

This report can under no circumstances be considered an audit carried out in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

María del Tránsito Rodríguez Alonso

February 26, 2018

The Management Report of **ENDESA, Sociedad Anónima** for fiscal year ending December 31, 2017, as provided herein, was drafted by the Board of Directors of the company ENDESA, Sociedad Anónima at its meeting on **February 26, 2018** and is hereinbelow signed by all of its Directors in compliance with Article 253 of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital*).

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

Madrid, February 26, 2018

Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

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

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 40)

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of
ENDESA, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ENDESA, S.A. (the Parent Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements, give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

Impairment of non-financial assets

Description At year-end 2017, the Group recognized property, plant, and equipment under non-current assets in the amount of 21,727 million euros, intangible assets totaling 1,196 million euros, and goodwill amounting to 459 million euros.

The recoverable amount of the above assets is subject to the existence of potential impairment, which is determined based on complex estimates and assumptions made by Group Management using criteria, judgments, and hypotheses. We consider this to be a key audit matter due to the significant amounts and the inherent complexity of assigning a value to key assumptions made and changes therein.

The Group applied the following key criteria and hypotheses: Electricity and gas demand, regulatory measures, average hydraulic and wind energy, installed capacity, production mix determination, sales and energy purchase prices, electricity and gas sales prices, fuel costs, fixed costs, as well as discount and growth rates.

Additional information on the criteria applied by Group Management, as well as key assumptions used during the determination of impaired value of non-financial assets is disclosed in Note 3.e) of the accompanying consolidated financial statements.

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

- ⌋ Understanding the processes established by Group Management to determine impairment of the value of non-financial assets, including assessment of the design and implementation of relevant controls.
- ⌋ Reviewing the model used by Group Management with the assistance of our valuation specialists, encompassing its mathematical coherence, reasonableness of the projected cash flows, discount rates, and long-term growth rates, as well as the outcome of the sensitivity analyses carried out by Group Management. Throughout the performance of our work, we held interviews with the business heads, using renowned external sources to contrast data and other available information.
- ⌋ Review disclosures included in the accompanying consolidated financial statements in accordance with the applicable financial reporting framework.

Revenue recognition. Electricity and gas sales supplied yet not billed

Description At year-end 2017, the Group recognized 1,021 million euros and 433 million euros on the consolidated income statement for electricity and gas sales, respectively, which have been supplied but thus far have not yet been billed; this is due to the fact that the customary meter reading does not coincide with the financial statements year end. The valuation of these unbilled sales is based on a series of complex estimates requiring the application of certain criteria, judgments, and hypotheses by Group Management.

The main estimates to which Group Management applies criteria and hypotheses to determine these unbilled sales are the following: energy consumption, energy costs, average selling prices, and toll costs.

Information on the Group's income recognition criteria, as well as a breakdown of sales pending billing are disclosed in Notes 3.ñ) and 13, respectively, of the accompanying consolidated financial statements.

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

- U Understand Group criteria and procedures used to estimate billed sales, including verifying the effectiveness of relevant controls.
- U Analyze Group energy balance to verify the reasonableness of the hypotheses applied (consumption, cost, prices), comparing the results obtained against business performance, prior years' experience, data and historical trends.
- U Perform substantive analytical procedures involving a review of energy consumption trends, costs, average prices, and toll costs, as well an analysis of correlations between associated accounts.

Provisions for litigation, termination benefits, and other legal or contractual obligations

Description At year end, the Group recognized provisions for litigation, termination benefits, and other legal or contractual obligations totaling 725 million euros, of which 701 million euros are recognized as non-current and 24 as current liabilities.

Group Management makes complex estimates and applies certain judgments and hypotheses to value these provisions.

We have considered this a key audit matter due to the complexity of assigning value to the main assumptions considered, as well as how changes therein might have a significant effect on the consolidated statement of financial position, and on the consolidated income statement, considering the significance of the amounts of the recognized provisions.

Disclosures for the recognition and valuation criteria used on these provisions, as well as the breakdown of these provisions in accordance with their nature, which are recognized as current and non-current liabilities are respectively included under Notes 3.k), 17 and 24 of the accompanying consolidated financial statements.

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

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

Changes in IT systems

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

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

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

Other information: consolidated management report

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

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

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

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

Responsibilities of the Parent Company's Directors and the Audit and Compliance Committee for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- U Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- U Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- u Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Parent Company.
- u Conclude on the appropriateness of the use, by the Directors of the Parent Company, of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- u Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- u Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the Audit and Compliance Committee of the Parent Company

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

Term of engagement

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

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since January 1, 2011.

ERNST & YOUNG, S.L.

(Signed on the original version in Spanish)

José Agustín Rico Horcajo

February 26, 2018