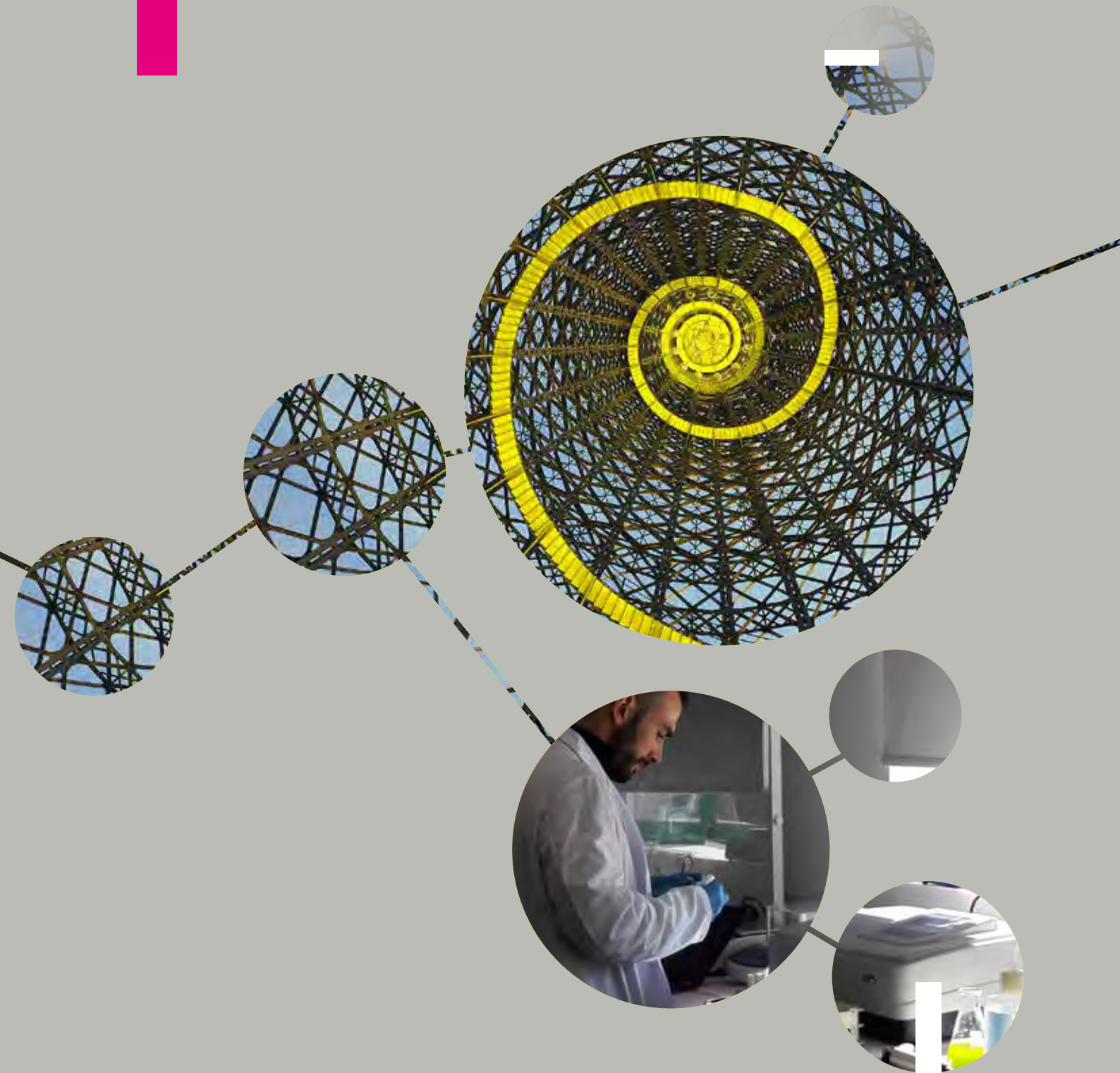
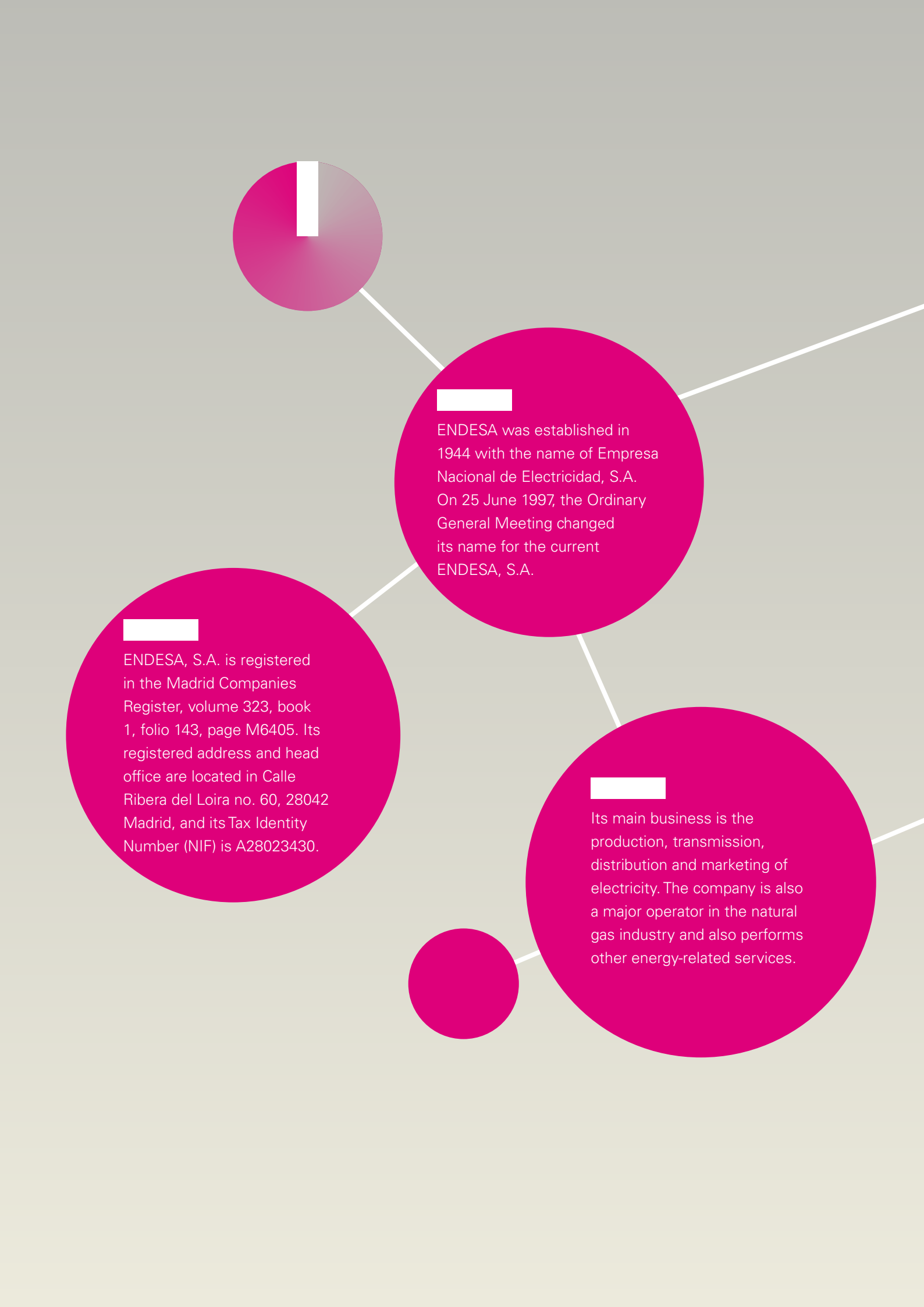


2016 Activities Report



endesa



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

ENDESA, S.A. is registered in the Madrid Companies Register, volume 323, book 1, folio 143, page M6405. Its registered address and head office are located in Calle Ribera del Loira no. 60, 28042 Madrid, and its Tax Identity Number (NIF) is A28023430.

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

ENDESA

ENDESA is the leading Company in the Spanish electricity sector and the second operator in the Portuguese electricity market, with total assets of 30,964 million euros on 31 December 2016.

Share capital

On 31 December 2016, ENDESA, S.A.'s share capital came to 1,270,502,540.40 euros and is represented by 1,058,752,117 shares with a nominal value of 1.2 euros, fully subscribed and paid up which are fully admitted to trading on the Spanish stock exchange.

Revenue

In 2016, ENDESA obtained total revenue of 18,979 million euros, a EBITDA of 3,432 million euros, an operating result of 1.965 million euros and net profit of 1,411 million euros.

Employees

At the end of 2016, the company employed 9,694 people in Spain and Portugal.

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Vision

Open Power to tackle some of the world's greatest challenges



Mission

1. Open energy to more people

We will use and increase our global scale to connect more people to safe and sustainable energy.

2. Open energy to new technologies

We will be at the forefront of the development and application of new technologies to generate and distribute more sustainable energy, paying special attention to renewable sources and smart distribution grids.

3. Open new forms of managing energy for the consumer

We will develop more services tailor-made for people to help them use energy more efficiently, with special attention to smart meters and digitisation.

4. Open energy to new uses

We will develop new energy-based services to tackle global challenges paying special attention to connectivity and e-mobility.

5. Be open to more collaborators

We will form a network of collaborators in research, technology, product development and marketing to build new solutions together.



Values

Responsibility

Each one of us is responsible for success of the group, at all levels. We place our energy at the service of people to improve their life and make it more sustainable.

Innovation

We live and work with curiosity, we make an effort to go beyond what is typical and overcome our fears, to open the energy to new uses, technologies and people. Learning from both errors and correct decisions.

Trust

We act confidently, honestly and transparently, to win the trust of our colleagues, customers and external partners, valuing individual differences.

Proactivity

We take charge of our work in first person. We continuously interpret scenarios and global challenges to anticipate changes, redefining priorities if the concept so requires.

Letter from the Chairman



Borja Prado Eulate
ENDESA Chairman

Dear shareholder,

Again this year, it is my pleasure to present you with ENDESA's Activities Report, which allows us to detail the most relevant actions carried out by our Company, in addition to the results obtained throughout 2016. In this way, ENDESA offers the public all necessary information to understand the running of our Company and assess the progress made to fulfil the ambitious objectives that we have been setting during the last few years and that are being achieved in a more than satisfactory way.

This report gives me the unique opportunity of directly addressing all our shareholders, essential backing for our business activities, to show them how we face our

challenges with efficient and responsible asset management, a financial strategy that allows us to look to the future with solvency and an industrial project that guarantees our long-term leadership in the markets where we operate.

Our industry is in the midst of a profound structural transformation process, where all involved agents will be affected and which will require maximum commitment from the private sector, the public administrations and regulatory bodies. ENDESA has not only joined this energy revolution but firmly desires to spearhead it.

With a view to the new energy scenario considered, 2016 has been a vitally important year for agreements in favour of the environment and of the future sustainability

of the energy industry. Almost one year after the Paris summit took place, the Marrakech summit was staged in November 2016. Here, most member countries of the United Nations Framework Convention have committed to the global agreement to limit the planet's temperature increase.

In this very regard, the energy transition has been strongly backed on the European continent after the year-end launch of the European Union "Winter Package", under the motto "Clean energy for all Europeans". This set of regulations and directives establishes a legislative initiative that has 3 main objectives: give priority to energy efficiency, turn Europe into world leader in renewable energies and place consumers at the centre of all energy decisions.

I would like to place special emphasis on this last point since, for the first time, the consumer holds the reins in this change process: a party qualified to make his/her own energy decisions. Self-consumption, energy storage, access to price comparison, smart meters or consumer protection as some aspects regulated in the provisions in this regard that will set the determine the course of the European Union's energy policy in the coming years.

Here at ENDESA we are fully aware of this and are constantly striving to be able to offer a range of products and services to the market which suit customers' needs, whilst focusing on optimising the industry to achieve a less polluted world and a more efficient and competitive industry. Finding this balance will be our great challenge in the near future and we are ready to tackle it.

On a government level, we have the certainty that Spain will actively participate and contribute to development of this energy transition, also aware that it will be an important opportunity for the country and its industry. To do this, it will be necessary to establish a more flexible and coherent strategy with future commitments, which defines the path in a transparent and objective manner for all parties involved.

If we review last year, 2016 has been particularly stamped by national and international political uncertainty. During this period, Spain has had the longest acting government in the history of democracy, and yet, this situation has not affected economic growth, which has shown a 3.2% rise in GDP at year-end. Furthermore, we have learned a particularly hopeful piece of information: growth in employment close to 2.7%.

Internationally, uncertainty has held predominance, with the referendum on the UK's exit from the European Union, the US elections or the great doubts in the electoral processes in European countries, as symptoms of widespread political discontent, the lack of trust in political leaders and the growth of strongly populist tendencies. These events generate great unknown in the markets and do not favour growth of the economy.

In this context, ENDESA very successfully completed the purchase of 60% of Enel Green Power España in mid-year for an amount of 1,207 million euros, which gave control over this Company's entire capital. This transaction made ENDESA direct owner of 1,675 MW in renewable facilities, of which 97% are wind power, in addition to a very significant project portfolio. In total,

91 generation power plants with production exceeding 3,704 GWh in 2016.

Through this operation, ENDESA substantially improves its generation mix, giving the Company a solid growth platform in the renewables industry. This means we can take yet a further step towards achieving 2050 objectives where all our electricity generating capacity must be emission-free.

Our Company's plan for acquiring renewable assets, which would complement our participation in the coming auctions for new capacity in Spain, demonstrates the Company's strong commitment to clean energies as one of the cornerstones for growth. This type of investment, in any case, will fulfil our priority of value creation for shareholders, and with this in mind we seek financially attractive formulas that allow us to obtain real added value.

As regards 2016 results, I am enormously pleased to say that they have greatly exceeded the commitments proposed by ENDESA to the markets in the 2016-2019 strategic plan. In 2016, we have achieved an Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of 3,432 million euros, a growth of 10.8% compared to the previous year, after eliminating the extraordinary impacts.

These results are due to excellent management of the deregulated business with a 13% increase in our contribution margin, the stable evolution of the regulated business (63% of our EBITDA) and cost reduction through efficiency plans. They also reflect the excellent comprehensive management of the margin which is one of

our cornerstones and which always allows us to obtain stable results in different energy market price scenarios. Together with this efficient and profitable strategy in the deregulated market, we can add a very effective regulatory and legal management.

ENDESA's net profit during 2016 has come to 1,411 million euros, a 27% increase, after eliminating extraordinary impacts. Other factors which have also assisted in this increase have been the lower production costs, less thermal generation, fewer generation taxes and reduced fuel cost, in addition to the decrease in average electricity purchase costs due to the drop in price in the wholesale market. This has been widely compensated by the decrease in average sale price.

With these results, and with the shareholders' interests in mind, the proposed distribution of the dividend for financial year 2016 presented by the ENDESA Board of Directors to the Shareholders' Meeting shall be a gross amount of 1.33 euros per share charged to the 2016 net profit, a 30% increase compared to 2015.

We can rightly be proud, since our solid results allow us to uphold and increase our market shares (35% in ordinary mainland generation, 44% in electricity distribution and 35% in sales to deregulated market customers). The number of customers who have trusted in us as reseller in the deregulated market has increased by 6.7% compared with 2015 year-end, reaching the figure of 5,423,040 customers in this segment.

Finally, I would not like to end without remembering all the employees that form part of this great Company and who work extremely hard to reach the ambitious goals

we set, the more than 12.5 million total electricity and gas customers that trust in our Company and, very especially, the more than 200,000 shareholders who support us in the exciting challenges we have decided to enthusiastically undertake. Together we are achieving great success, directing our efforts in the same direction to help this Company consolidate its leadership in such a complex and exciting industry.

As ENDESA chairman, I feel very proud to show the thousands of shareholders that have trusted in us that we have fulfilled and shall continue to fulfill the promises

made some years back, and that I commit to all of them to continue playing a great role in these times of change, to continue contributing to the development of this country and to that of our Company.



Borja Prado Eulate
ENDESA Chairman

Letter from the CEO



José D. Bogas Gálvez
ENDESA CEO

Dear Shareholder,

Yet another year, the publication of ENDESA's Annual Activities Report gives me the opportunity to inform you of the aspects which, in my opinion, are the most representative of the management in our businesses in 2016 and of sharing a series of thoughts about the present and future of our Company.

We are living in difficult and accelerated times, filled with uncertainties and surprises. 2016 was not an exception. In Spain, the Government had to face ten months of acting government and there was a real possibility that third general elections would have to be held. Internationally, we witnessed Brexit, the electoral victory of Donald Trump, the ratification by up to 114 countries (now more than 140) of the climate change agreement known as COP 21 established in Paris at the end of 2015...

These are just a few examples of events that are transforming the social, political and economic scenario in a sometimes unpredictable way. And they go hand in hand with other factors of change, that have been in place longer and with profound long-term consequences (continuous technological advances, increasing digitisation, greater decision-making power of customers...), that constantly test companies' capacities to fulfil their objectives.

As regards the energy scenario, raw material prices were internationally highly volatile in 2016. In Spain, the electricity demand, despite the country's better economic climate, barely grew 0.6% on the Mainland, which became a drop of 0.1% if we correct the effects of employment factors and temperature, and the wholesale electricity market prices sharply fell.

As I will detail below, our Company was capable, in this complex and unfavourable context, of achieving excellent eco-

conomic and financial results, which has allowed us to go beyond the commitments we had announced to the markets through our Industrial Plan.

Furthermore, in the month of June 2016, we completed the acquisition of up to 100% of the company Enel Green Power España, the fourth producer of electricity with renewable energies, of which we already held 40%. This acquisition has undoubted strategic importance for our company, since it increases, diversifies and improves our generation mix, provides us with a solid growth platform in renewable energies and is an essential step in our progress towards a fully decarbonised energy system.

Regarding the Company's main financial figures, it should be stressed that in 2016 ENDESA achieved, Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of 3,432 million euros, 13% higher than 2015.

To fairly assess this result, it must be considered that this included the full consolidation of the incorporation of Enel Green Power España, with a contribution of 75 million euros; that in financial year 2015 the EBITDA included a non-recurring positive impact of 184 million euros for the sale of emission rights (EUAs); and that in 2015 and in 2016, the company made provisions for an amount of 380 million euros and of 226 million euros, respectively, to materialise various workforce optimisation projects within the framework of its continuous cost efficiency process.

If we remove these extraordinary factors from both financial years, the 2016 EBITDA increases by 348 million euros, i.e. by 10.8% in comparison with the previous year.

Net profit was 1,411 million euros in 2016, with a 30% increase. Again, if we discount the effect of these main extraordinary factors, the increase is 27%.

Gross investments were 1,221 million euros, 12.6% more than in 2015, which makes ENDESA one of the Spanish companies with greatest investment effort.

Another significant aspect of the 2016 results was the confirmation of ENDESA's proven capacity to generate high cash flows. The working cash flow was 2,995 million euros, with an increase of 339 million euros. Thanks to this high cash flow generation, and despite the acquisition of Enel Green Power España and payment of the dividend charged to the 2015 results for a value of 1,086 million euros, the Company's net debt only increased by 615 million euros compared to 2015 year-end, standing at 4,938 million euros.

In short, this information shows you ENDESA's capacity to provide solid and stable results, in addition to fulfilling the economic-financial commitments.

These good results are basically explained by the good management of the deregulated business, the stability of the regulated business and by the progress made thanks to the successive cost efficiency plans that the Company has applied in recent years in all its businesses.

The deregulated business had very positive behaviour. Its gross margin grew by 13% in comparable terms as a consequence of lower production costs due to less thermal production; lower taxes on generation and reduced fuel costs, and the decrease in average costs in the purchase of electricity because of the 21.2% drop in price in the wholesale market, which largely compensated the decrease in average sales price.

The regulated business, which represented more than 63% of the 2016 EBITDA, had a stable evolution and its margin was in line with that of the previous year.

In terms of cost efficiency, the various plans in progress made it possible to reduce fixed costs by 3% compared with 2015, measured in homogeneous terms, thus giving continuity to the cost optimisation process that the company has been maintaining throughout recent years and which has become one of the most characteristic signs of its business management.

This information and facts, which confirm ENDESA's capacity to fulfil the demanding objectives we periodically announce to the markets, places us in a solid position to tackle the long-term changes that energy companies currently must face on an international level if they want to form an active part of building a more sustainable future.

The first, which links or binds all the others in one way or another, is undoubtedly the objective of achieving full decarbonisation of the energy system in line with the COP21 agreements. This involves, for European Union countries, the reduction of greenhouse gas emissions by 40% in 2030, and between 80% and 95% in 2050, compared with 1990.

To achieve these objectives, Spain must go from 330 Mt of current emissions to 66 Mt in 2050. This will only be possible if effective measures are urgently put in place that allow giving a decisive boost to electrification of the final energy demand; reduction in emissions from "diffuse sectors", such as transport, promoting e-mobility with much more intensity than at present, so that in 2050 90% of the cars are electric or hybrid, 35% or 40% of goods transport is by rail and there is at least 10% of light electric trucks; and the full roll-out of smart networks to enable implementation of continuous technological progress and the integration of renewable energies.

The latter must continue to be incorporated in the electricity system, replacing conventional technologies, as part of an

Energy Transition Plan which enables this in a way that is compatible with supply security and economic competitiveness. This is increasingly feasible since these technologies have finally reached a high maturity as an energy alternative. This is proven by the costs of solar photovoltaic energy being reduced by approximately 90% and wind power by 50% over the last 7 years.

A third challenge is given by customers' rising decision-making power. These customers have unquestionably become the main source of value of our business, and, due to this, a great opportunity for growth. Our customers are increasingly digital, connected and social; they demand instant access to information through their mobile devices; they want to perform all types of transactions with them simply, quickly and securely; they use any opportunity to self-manage their own consumption; they want to enjoy genuine personalised experiences before, during and after purchase of the products and services; they acquire and use technological solutions (distributed generation, electric cars, smart meters, home automation solutions, etc.) that have a strong impact on electrical infrastructures...

Our Industrial Plan, whose update we presented to the markets in November 2016, consistently responds to these and other fundamental challenges. It includes a net investment effort of 4,700 million euros, which allows tackling efficient and selective environmental actions; the growth in renewable energies through Enel Green Power España; the total roll-out of smart networks; the development of a large number of channels and digital offers, in addition to an extension of our portfolio of value added products and services, to take on the challenge of focusing on the customer, and an ambitious Digitisation Plan to continue promoting the digital transformation of our industrial assets, the improvement in

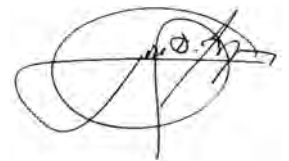
our workforce's digital abilities, the efficient management of cybersecurity risks and new advances in cost efficiency.

In short, an Industrial Plan clearly aimed at making ENDESA an active company in building a sustainable future through the implementation of Enel Group's own values and key priorities of the global positioning, which, under the global concept of Open Power, is clearly focused on facilitating access to progress through the energy of all communities where we are present; in the promotion of new technologies, uses and forms that are more efficient and better at managing and using the energy, in establishing lasting alliances with all stakeholders to enable common goals to be achieved.

We, therefore, have a solid present and a consistent long-term vision that should allow us to successfully deal with an increasingly challenging, but also increasingly promising, future.

A future to which I am undoubtedly looking forward with hope and optimism. Because all of us that form part of this great company have the firm decision of forming part of it, providing value to society and supplying a quality and affordable basic and indispensable service, in benefit of all citizens.

None of this would be possible without the trust and support of our shareholders. I would, therefore, like to repeat our deepest thanks for contributing to opening the doors of that future we are building among all of us.

A handwritten signature in black ink, consisting of a large, stylized 'J' and 'B' followed by 'Gálvez'.

José D. Bogas Gálvez
ENDESA CEO

Governing bodies of the Company

Executive Committee

CHAIRMAN

Mr Borja Prado Eulate

BOARD MEMBERS

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

SECRETARY

Mr Francisco Borja Acha Besga

Appointments and Remunerations Committee

CHAIRMAN

Mr Miquel Roca Junyent

BOARD MEMBERS

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

SECRETARY

Mr Francisco Borja Acha Besga

Board of Directors

CHAIRMAN

Mr Borja Prado Eulate

VICE-CHAIRMAN

Mr Francesco Starace

CEO

Mr José D. Bogas Gálvez

BOARD MEMBERS

Mr Alberto de Paoli
Mr Miquel Roca Junyent
Mr Alejandro Echevarría Busquet
Mr Livio Gallo
Mr Enrico Viale
Ms Helena Revoredo Delvecchio
Mr Ignacio Garralda Ruiz de Velasco
Mr Francisco de Lacerda

SECRETARY

Mr Francisco Borja Acha Besga

Audit and Compliance Committee

CHAIRMAN

Mr Ignacio Garralda Ruiz de Velasco

BOARD MEMBERS

Mr Alejandro Echevarría Busquet

Mr Alberto de Paoli

Mr Miquel Roca Junyent

Mr Francisco de Lacerda

Ms Helena Revoredo Delvecchio

SECRETARY

Mr Francisco Borja Acha Besga

Executive Management Committee

CEO

Mr José D. Bogas Gálvez

AUDIT DIRECTOR

Mr Luca Minzolini¹

ADMINISTRATION, FINANCE AND CONTROL DIRECTOR

Mr Paolo Bondi

COMMUNICATION DIRECTOR

Mr Alberto Fernández Torres

RESOURCES DIRECTOR

Mr José Luis Puche Castillejo

HUMAN RESOURCES AND ORGANISATION DIRECTOR

Mr Andrea Lo Faso

INSTITUTIONAL RELATIONS AND REGULATION DIRECTOR

Mr José Casas Marín

SUSTAINABILITY DIRECTOR

Ms María Malaxechevarría Grande

PURCHASES DIRECTOR

Mr Pablo Azcoitia Lorente

ICT DIRECTOR

Mr Manuel Fernando Marín Guzmán

MARKETING DIRECTOR

Mr Javier Uriarte Monereo

GENERATION DIRECTOR

Mr Manuel Morán Casero

ENERGY MANAGEMENT DIRECTOR

Mr Álvaro L. Quiralte Abelló

INFRASTRUCTURE AND GRID DIRECTOR

Mr Francesco Amadei

NUCLEAR DIRECTOR

Mr Juan María Moreno Mellado

SECRETARY GENERAL AND OF THE BOARD OF DIRECTORS AND LEGAL ADVICE DIRECTOR

Mr Francisco Borja Acha Besga

RENEWABLE ENERGIES DIRECTOR

Mr Enrique de las Morenas Moneo

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

Key economic-financial figures

Key Figures of the Balance Sheet (million euros)	2014	2015	2016
TOTAL ASSETS	30,696	29,245	30,964
Business in Spain and Portugal	30,696	29,245	30,964
Business in Latin America	0	0	0
TANGIBLE ASSETS	21,104	20,815	21,891
Business in Spain and Portugal	21,104	20,815	21,891
Business in Latin America	0	0	0
PARENT COMPANY EQUITY	8,576	9,036	8,952
Business in Spain and Portugal	8,576	9,036	8,952
Business in Latin America	0	0	0
MINORITY INTERESTS EQUITY	-1	3	136
Business in Spain and Portugal	-1	3	136
Business in Latin America	0	0	0
NET FINANCIAL DEBT	5,420	4,323	4,938
Business in Spain and Portugal	5,420	4,323	4,938
Business in Latin America	0	0	0

Figures of the Revenue Statement (million euros)	2014	2015	2016
OPERATING REVENUE	21,512	20,299	18,979
Business in Spain and Portugal	21,512	20,299	18,979
Business in Latin America	0	0	0
OPERATING RESULT (EBIT)	1,472	1,598	1,965
Business in Spain and Portugal	1,472	1,598	1,965
Business in Latin America	0	0	0
PROFIT AFTER TAXES AND MINORITY INTERESTS	3,337	1,086	1,411
Business in Spain and Portugal	950	1,086	1,411
Business in Latin America	2,387	0	0
EBITDA	3,090	3,039	3,432
Business in Spain and Portugal	3,090	3,039	3,432
Business in Latin America	0	0	0

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

Key operating figures

	2014	2015	2016
Workforce			
Spain and Portugal	10,500	10,000	9,694
Other countries	0	0	0
Capacity (MW)			
Spain and Portugal	22,677	22,164	23,691
Hydroelectric	4,759	4,765	4,765
Classic Thermal ¹	8,798	8,278	8,130
Thermal-nuclear ¹	3,443	3,443	3,443
Combined Cycle	5,677	5,678	5,678
Renewable and Cogeneration ²	–	–	1,675
Production (GWh)			
Spain and Portugal³	69,681	73,061	69,831
Hydroelectric	8,778	7,176	7,173
Classic Thermal ¹	30,602	32,634	28,100
Thermal-nuclear ¹	24,762	25,756	25,921
Combined Cycle	5,539	7,495	7,425
Renewable and Cogeneration ²	–	–	1,212
Sales (GWh)			
Spain and Portugal	93,928	92,899	93,490
Regulated price	16,560	14,934	13,815
Deregulated market ⁴	77,368	77,965	79,675
Number of customers (thousands)			
Spain and Portugal	11,206	11,112	11,016
Regulated market ⁵	6,663	6,029	5,593
Deregulated market ⁴	4,543	5,083	5,423
Energy distributed (GWh)			
Spain and Portugal	110,945	114,190	115,602

¹ Figures consolidated by ENDESA.

² Data since date of taking control of Enel Green Power España by ENDESA, 27 July 2016.

³ Data measured in power plant busbars.

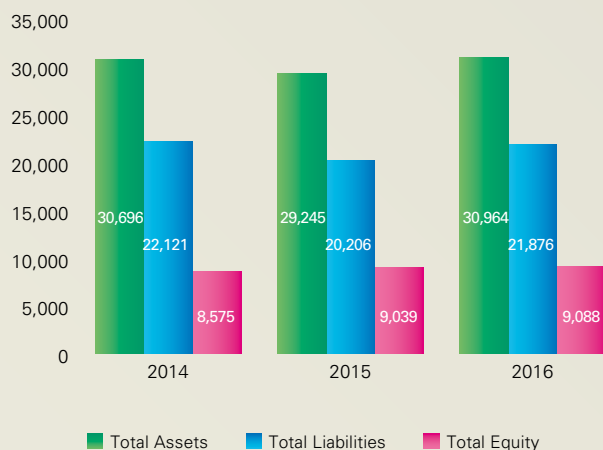
⁴ To provide coherent economic data for this business, it includes sales made by ENDESA Energía to customers in European countries outside of Spain and Portugal.

⁵ Tariff customers. Does not include toll customers.

Financial figures

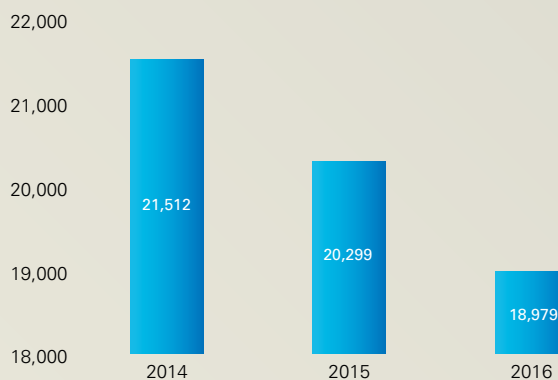
Evolution of Assets, Liabilities and Equity

(Figures in millions of euros)



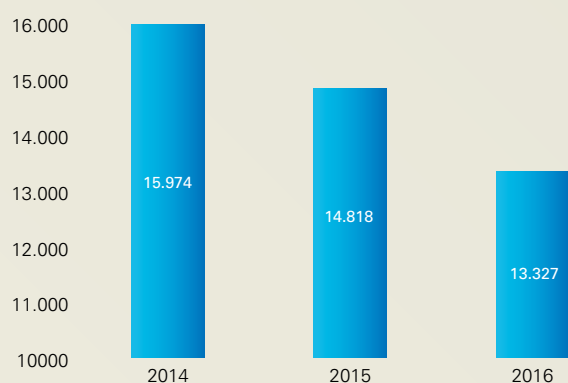
Operating revenue

(Figures in millions of euros)



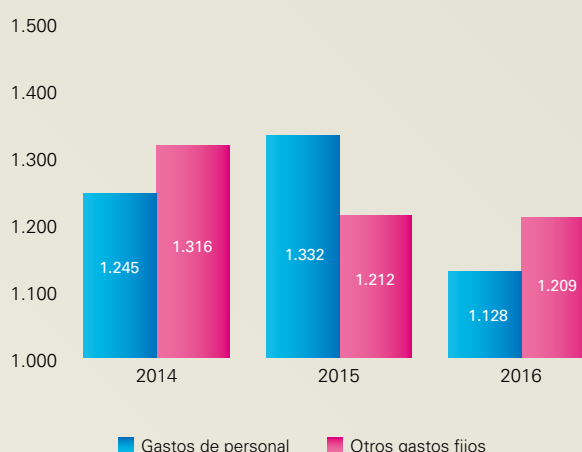
Procurement costs

(Figures in millions of euros)



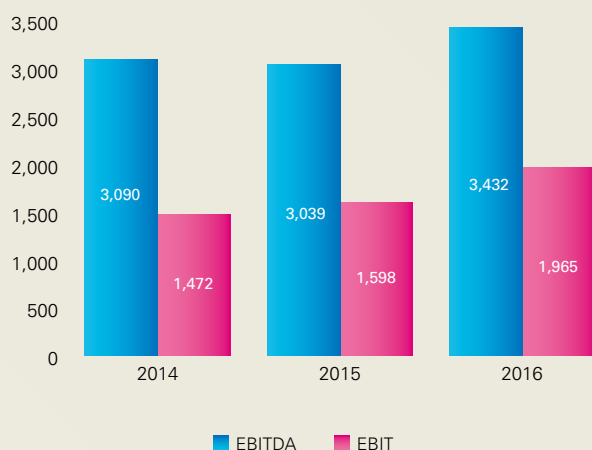
Other costs

(Figures in millions of euros)



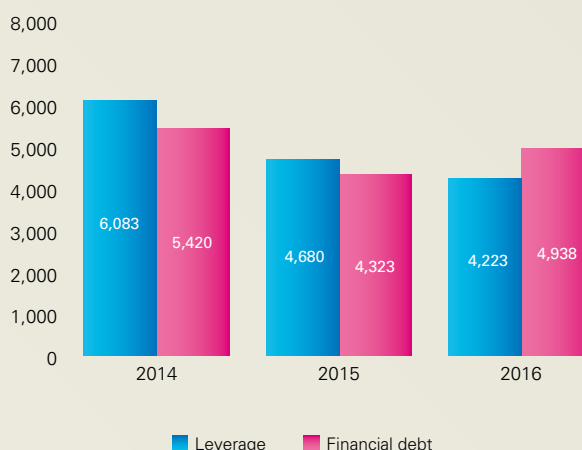
EBITDA and EBIT

(Figures in millions of euros)



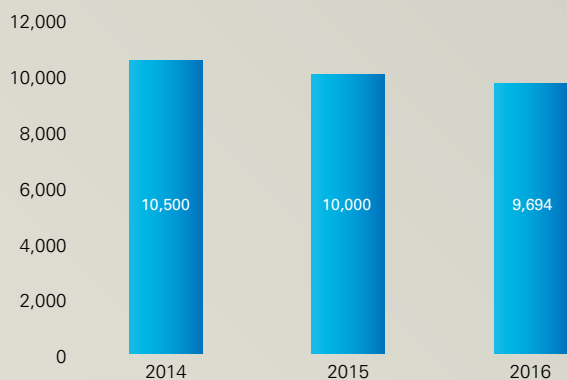
Financial debt and leverage

(Figures in millions of euros)



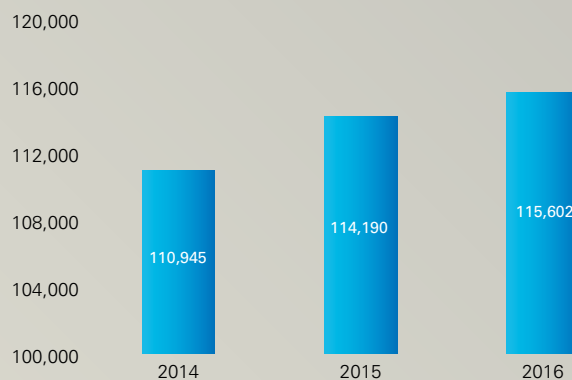
Operating figures

Workforce



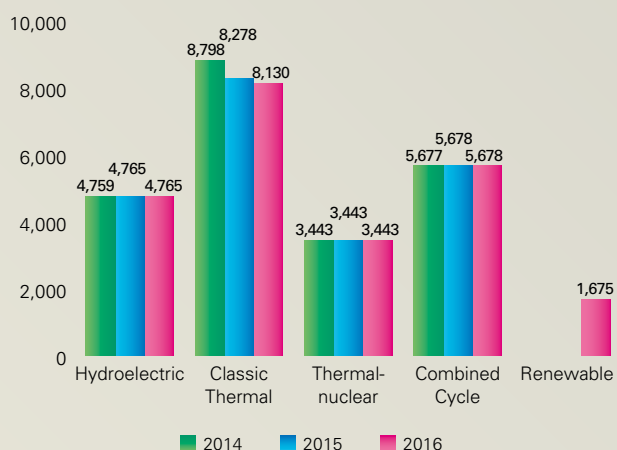
Energy distributed

(GWh)



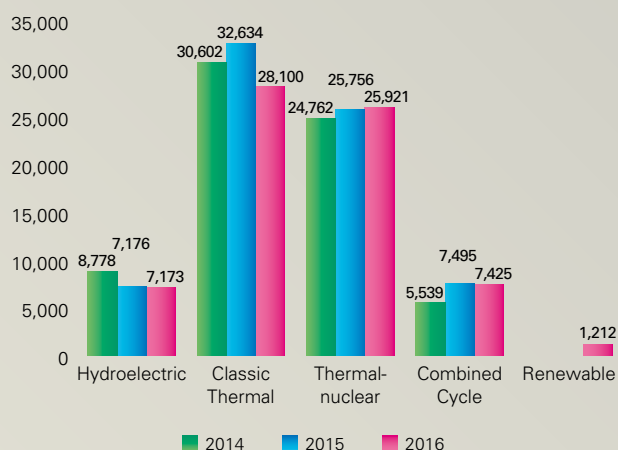
Capacity

(MW)



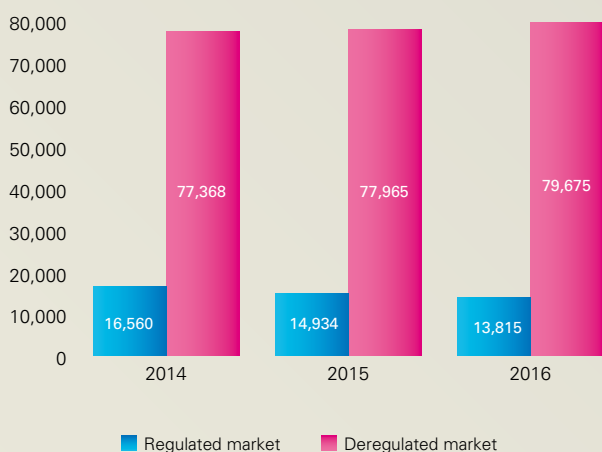
Production

(GWh)



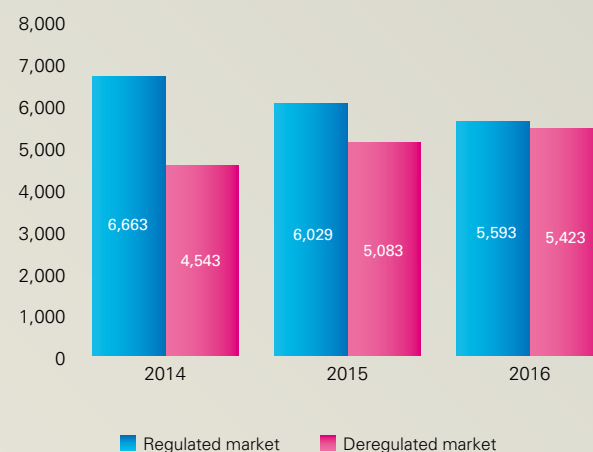
Sales

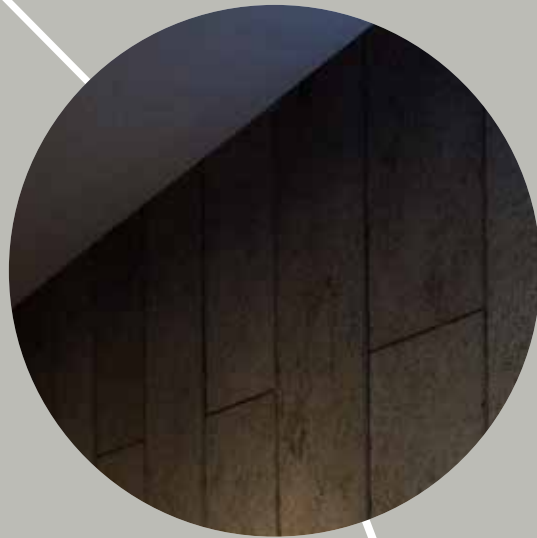
(GWh)

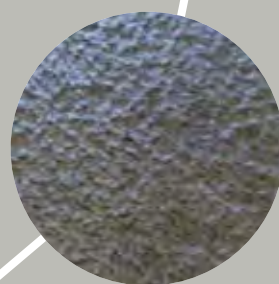
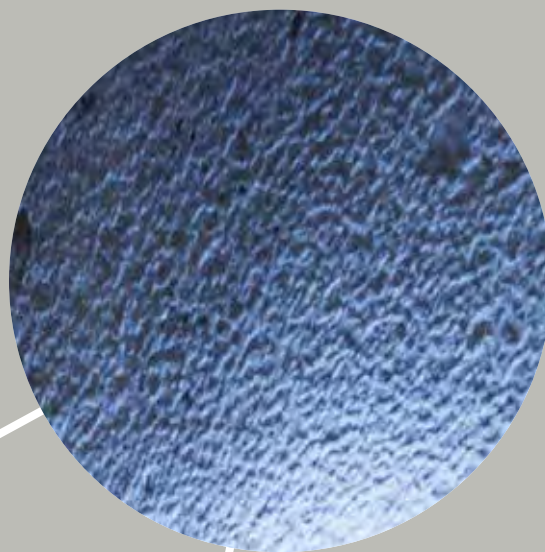


Number of customers

(Thousands)







The Enel Group

1. Enel, International Leader

When we speak of Enel we are speaking about the largest electricity company in Italy, which owns most of the country's electricity grid, and is also an active operator in the production, supply and sale of electricity and gas. It is a multinational company that focuses on the European and Latin American market, and with its 61.4 million end users all over the world, the Group has the largest customer base of its European competitors with a total production of 261.8 TWh/year. Enel Group's EBITDA on 31 December 2016 was 15.3 thousand million euros.

Enel has been listed on the Milan stock exchange since 1999 and its main shareholder is the Italian Ministry of Economy

and Finance with 25.5% of the capital. It has the largest number of shareholders of an Italian company (around 1 million minority and institutional investors).

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



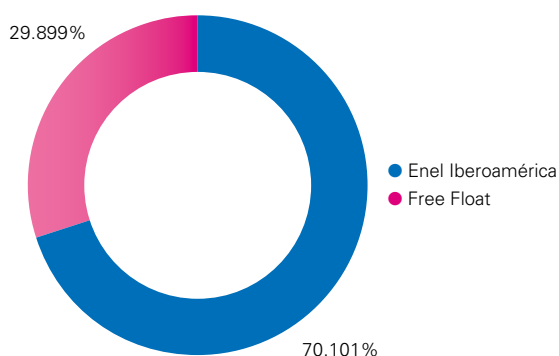
2. ENDESA in the Enel Group

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

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

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

Distribution of ENDESA shares



3. Enel in the world

After its consolidation as a multinational group, Enel is currently working on the consolidation of acquired assets and the greatest possible integration of its businesses. The Group performs operations in 31 countries on 4 continents, with a particular focus on Europe and Latin America.

Enel is Italy's first electricity company. It operates in the generation sector with thermal power stations and generation from renewable sources. Furthermore, Enel manages most of the electricity distribution grid of Italy and provides integrated packages of electricity and gas products and services to its 30.7 million Italian customers.

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

In Europe, Enel is also present in Slovakia, with its holding in the country's largest electricity generator and the second in Central and Eastern Europe. In Romania, in addition to in Greece, the Enel Group has and operates renewable energy generation plants. In Russia, Enel operates in the generation

industry and in the resale distribution industry, through its holding in one of the country's largest independent suppliers. In France, a strategic market for the Group, Enel performs trading activities in the gas and electricity markets.

Enel is a major player in the energy market in Latin America, where it is the leading private company, both in terms of installed capacity and number of customers. In South America it operates in 5 countries, with installed power capacity from thermal and hydroelectric plants and other renewable energy sources. In the generation sector, it owns and operates power plants in Argentina, Brazil, Chile, Colombia and Peru. In the distribution sector, the Group is present in the Brazilian state of Ceará and in 5 of the main cities in South America: Río de Janeiro, Bogotá, Buenos Aires, Santiago de Chile and Lima. In the transmission industry, the Group operates an interconnection power line between Brazil and Argentina. Chile and Brazil, whilst Costa Rica, Guatemala, Panama and Mexico house wind power and hydroelectric power.



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

In Africa, Enel is present in the gas exploration and production sector, developing gas fields in Algeria.

Through ENDESA, Enel also operates a thermoelectric power plant in Morocco. In South Africa, the Enel Group operates the photovoltaic plant in Upington, with a capacity of 412 MW.

Enel's presence in the world



4. Innovation and quality of service in Enel

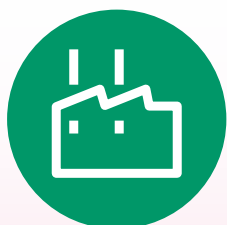
The Enel group promotes technological innovation to generate electricity more efficiently and responsibly and offers customers new solutions (from energy efficiency to smart grids) under a common denominator; electrical energy, the cleanest and most efficient energy vector.

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

Enel took on a strong commitment to renewable energy sources and to the research and development of new eco-

logical technologies. Enel Green Power (EGP) is the Group Company that generates renewable energy, operating sources based on water, wind, geothermal, sun and biomass generation plus cogeneration in Europe, America and Africa. Enel Green Power is the renewable energy company with the most highly-diversified smart technology of its competitors worldwide.

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



Conventional generation

Improvement of operational and environmental performance, with emission reduction.



Renewable energies

Improvement in the performance of all available technologies, integration of storage and research systems in new technologies.



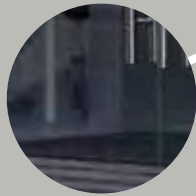
Infrastructure and grids

Ongoing development of smart grids for managing distributed generation, e-mobility and improved reliability of the electricity system.



New products and services, e-mobility

Development of new business models to improve people's quality of life and propose innovative solutions for companies, by launching new products and services, mainly electricity-based.





Economic, energy
and regulatory framework

1. Key macroeconomic highlights

1.1. International economic outlook

According to the United Nations report on the world economy in 2016, it expanded 2.2%. That value (although positive) is the lowest growth rate registered since 2009. Several factors affect world economic development, but among them we can cite, as the most important, retractions in investments, decrease in the growth rate of international trade, high debt levels and very low industrial productivity growth rates. To these factors, we can add geopolitical tensions and different international conflicts as complementary elements that negatively helped that growth below expectations of the global economy.

Low investment levels were an essential aspect of the slower growth rate, in particular those investments from the main economies, both developed and developing. The continuation over time of global demand reduced companies' incentives for investments at the same time as political uncertainties.

The lack of access to financing also acted as a negative factor for growth of the economy, especially in countries where the banks continue with low capitalisation or where the financial markets are not well-developed.

An additional factor which contributed to a slowdown in growth were the strong restrictions, in certain countries, to the public investment policies as necessary response to the high levels of debt of their economies. Furthermore, raw material exporting countries decreased their investments in infrastructure and service as a measure in response to the drop in prices of their products in the international markets.

All these reasons generated an extended period of low investment that acted as fundamental factor in the deceleration of productivity growth.

In most developed, and undeveloped, economies, the growth in labour productivity has visibly decelerated.

The political uncertainties in the USA and Europe reduced the trust in relation to the global economic outlook. The political changes in the first world economy and the UK's decision to leave the European Union were two factors that helped maintain a climate of little trust and hindered global growth.

The drop in the growth of world trade is both a cause and symptom of the global economic deceleration. The volume of world trade only grew 1.2% in 2016, the third lowest growth rate of the last thirty years. Some structural changes that favoured growth in world trade in other years began to be diluted, together with less progress in market deregulation processes.

The price of oil rose at 2016 year-end after the OPEP's decision to reduce production by 1.2 million barrels per day. To this measure was added the measure of a further 12 producing countries (not OPEP members) to reduce by a further 558,000 barrels daily. These measures, the first in this regard since 2001, triggered a rise in barrel price at year-end of almost twice the minimum prices recorded in January 2016.

In the Euro zone, inflation was 1.1% in December 2016, its highest level in the last 39 months. This rise reflected the impact of the oil price rise (which drove the first year-on-year rise of energy prices since June 2014), food (with a rise of 2.1% year-on-year) and services (1.3% year-on-year). Hence, inflation in the Euro zone was below the price increase recorded in Spain: the first unfavourable differential for the country since August 2013. The countries

in Europe with the highest greatest year-on-year inflation rates were Estonia (2.4%), Belgium (2.2%), Latvia (2.1%), Lithuania (2%), Germany (1.7%), whilst the lowest levels corresponded to Ireland (−0.2%), Cyprus (0.1%) and Slovakia (0.2%).

Unemployment ended 2016 at 9.6% in the Euro zone (the European Union as a whole remained at 8.2%), the lowest value since May 2009. In the year as a whole, unemployment dropped in 24 European countries, with greater drops in Croatia (from 15% to 11.4%), Spain (20.7% to 18.4%) and Portugal (from 12.2% to 10.2%). In contrast, it rose in Cyprus (from 13.1% to 14.3%), Italy (from 11.6% to 12%) and Denmark (from 6.1% to 6.2%). Youth unemployment ended 2016 at 20.9% with the rate in Spain highest (42.9%) and Germany the lowest (6.5%). By sexes, unemployment rate was greatest for women, 9.3% in the Euro zone.

Growth in the Euro zone was 1.7%.

In the United Kingdom, the process of separation from Europe (Brexit) marked the year's activity. The GDP data from 4Q 2016 indicate a loss in drive in its economy going from values per capita of US\$43,902 in 2015 to US\$40,412 in 2016. The year-on-year inflation rate was 1.6% in December 2016 (0.4% greater than the previous month) thus reaching values that almost tripled the existing rate before Brexit, when the year-on-year values were close to 0.5% year-on-year. The increases in food and fossil fuels were the greatest drivers of this rise. Likewise, the pound sterling accumulated a 13% devaluation compared to the euro since the separation referendum results were revealed.

In the USA, the economic activity was marked by the presidential campaign that led to the change of governing party at the end of 2016. The country is still emerging from the recession of the last decade and this last year, despite the long-term budgetary and monetary stimulation plans, the economic growth (although positive at 1.6%) slowed down in relation to 2015, mainly due to reductions in internal consumption and investments. The labour market problems (which marked a minimum in 2009 with a 10% unemployment rate) have been gradually recovering to reach a rate of 4.9% (0.4% lower

than the previous year), although most analysts tend to recognise a reduction in the labour market participation rate. The GDP per capita increased from US\$56,084 to US\$57,294.

Japan's economy maintained its growth rate based on exports, and 2016 is the first year that recorded 4 consecutive quarters of growth since 2013 (allowing annual growth of 1%). The country (the world's third largest economy) is undergoing a fiscal and monetary stimulation program. Exports grew by 2.6% in the last quarter of 2016 thanks to increased Chinese and US market demand, a situation favoured by a weak Yen.

In China, growth in 2016 was 6.6% of its GDP despite the slowdown of its economy, related to recession of its heavy industry, its mining activity and the decreased activity of public sector companies.

The growth in less developed countries remains below the "Sustainable development objective" goal, directly correlated with the greater risk for continuity of public expenditure in health, education, social development and adaption to climate change. Accumulating resources to fund the necessary investments in less developed economies continues to be a complex task, where, there is no stability (in many cases) to encourage foreign investments.

1.2. The Spanish economy

Despite two legislative elections and after 10 months without successfully forming a government, the Spanish economy exceeded the expectations at the start of the year, overcoming the prognosis for slowdown based on four essential pillars: decrease in oil price, increased tourism revenue, purchases of Spanish public debt, (close to 93,000 million euros) by the Central European Bank which determined very low interest rates (thus reducing financial load due to debt) and public consumption of Administrations. This last deficit relaxation measure also aided the growth above the initially expected values.

After 6 years of recession, the Spanish economy managed to maintain the growth rate that had commenced in the second quarter of 2013. The 2016 GDP growth was 3.2% and although it exceeded the previous calculations and existing estimates, it gave some indications of deceleration at year-end. In the fourth quarter, the GDP grew by 0.7%, the same growth rate as the previous quarter but below the values of the 6 previous quarters.

Hence, the Spanish economy achieved a third consecutive year of economic improvement, with that recovery being approximately 80% of the loss suffered during the recession. If the effect of inflation is discounted from the recovery, the hypothetical GDP of that situation would be a recovery of around 95%. With these values, the Spanish economy is close to reaching 2008 GDP values, although its composition shall be very different, since exports substantially increased whilst investment and salary mass decreased their weight.

The Spanish GDP per capita was US\$27,012 in 2016 compared with US\$25,843 of the previous year, with the 2016 global GDP being US\$1,252 thousand million compared with US\$1,199 thousand million in 2015.

The unemployment rate in Spain was 18.4%, a decrease with respect to the previous year of 2.3 percentage points, although it is within the highest in Europe. This reduction was mainly based on the decrease in active population and creation of new temporary contracts. The crisis left the mark of a lowering in the general living quality (one third of Spanish workers receive a payment of up to 707 euros per month). Unemployment dropped by 541,700 people over the year

throughout the country, to reach a figure of 4,237,800 unemployed (the lowest in the last 7 years).

During 2016, unemployment dropped in all autonomous regions except Extremadura where it slightly rose by 0.6%. The largest drops in unemployment rate were in Asturias (29.7%), Cantabria (26.7%), Navarre (25.4%) and La Rioja (22.7%). In absolute terms, unemployment fell most in Catalonia (110,200 fewer unemployed people), Andalusia (78,000 fewer unemployed people) and Madrid (73,000 fewer unemployed people).

The 2016 inflation rate was 1.6%, the highest rate since August 2013. The annual rate measured by the National Institute of Statistics (INE) at year-end is 9 tenths above that of November, justifying this increase by the increased fuel price. The second half of 2016 showed the recovery of very low inflation levels and even negative in some months. In July and August, the inflation data were 1.8% and 1.5% respectively, and from September (0.3%) showed a marked drop in values. The rise in the last months is due to increased oil price from US\$27 per barrel in January 2016 to US\$60 in December, dragging inflation upwards.

Spanish public debt dropped in percentage terms with respect to GDP until reaching values equivalent to 98.98% compared with 99.80% at 2015 year-end. The drop is not justified by debt amortisations, but due to increase in economic activity, which consequently increases the GDP values and, therefore, reduces the size of debt in proportion to the country's economy. In gross terms, the debt increased by 33,438 million euros to 1,105 billion euros.

2. Evolution of interest rates and exchange rates

During 2016, the evolution of the interest rates of sovereign debt in Europe continued conditioned by the actions of the European Central Bank (ECB), which allowed preserving the minimum rates in Spanish public debt, reaching listing levels below 1%. The Spanish differential compared with the 10-year German bond was 118 basis points at 2016 year-end, levels similar to 2015 year-end. In contrast, other indebted economies in the Euro zone increased their country risk. Thus, the differential against the 10-year German bond of Italy and Portugal increased during 2016 to 161 and 356 basis points, respectively, at financial year-end, a deterioration of 64 and 167 basis points, respectively, compared with 2015.

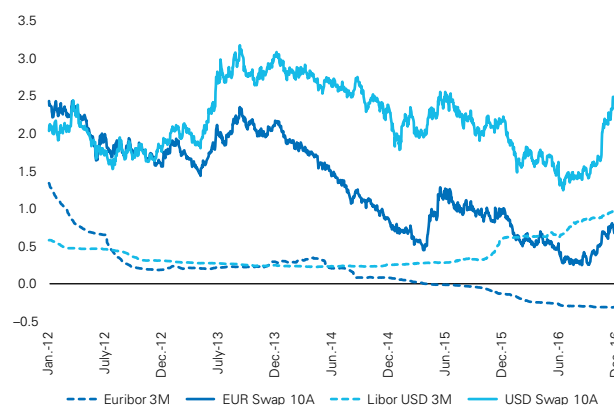
The ECB reduced the interest rates of the Euro zone to the historic minimum of 0% and extended the banking system's monetary and supervision measures. The ECB continued to use the sovereign bond purchase program and increased the financial assets on which it could act.

The long-term interest rate of the euro (10-year swap) decreased, going from 1.00% at the start of the year to 0.66% at year-end. For its part, the short-term interest rate (3-month Euribor) decreased from -0.13% to an even more negative value of -0.32%.

The long-term interest rates of the US dollar (USD), increased during 2016 from 2.19% to 2.34%. The 3-month interest rate of the US dollar (USD) increased from 0.61% to 1.00% at 2016 year-end.

The euro depreciated 3.2% against the US dollar (USD) during 2016, going from a euro/US dollar (€/USD) exchange rate of 1.09 at the start of the year to 1.05 at the end of 2016, affected by the divergence between the monetary policies of the European Central Bank (ECB) and the US Federal Reserve (FED).

Evolution of the interest rates of the euro and dollar in recent years (%)



3. International fuel and freight market

3.1. Oil and oil derivatives

The prices of Dated Brent crude rose during 2016 from 26 USD/bbl in January to 55 USD/bbl at the end of the year, due to an agreement between OPEP/Non OPEP countries in November, to cut production by 1.2 MBPD. The main contributors to the cuts were Saudi Arabia and Russia, that committed to reduce their production by 0.5 and 0.3 MBPD respectively. The average price of Dated Brent was 43.73 US\$/bbl (vs. 52.39 US\$/ barrel in 2015, -16%).

The prices of oil derivatives behaved in line with prices of crude. Diesel FOB ARA 0.1% and the fuel oil FOB NWE 1% closed the financial year with average prices of 389.8 USD/t (-20% vs. 2015) and 217.6 USD/t (-16% vs. 2015), respectively.

3.2. Natural gas

The gas prices in Europe and of liquefied natural gas (LNG) in the world have recovered following crude, after touching bottom in the month of April, and they have continued rising in the second half despite the stabilisation of crude, for various reasons including the unavailability unforeseen in supply and growth of demand in Europe and the Far East associated to the relatively cold winter 2016-2017 and the low availability of nuclear generation in both regions.

In Spain, the demand for gas ended the year with a growth of 2.1% compared to the previous year, due to a 3.3% increase in the conventional demand partially compensated by 2.6% drop in electricity generation demand, after a growth of 18.2% in 2015. The percentage of consumption allocated to electricity generation was 18.6% in 2016, after exceeding 19% in the previous year.

3.3. Coal

During 2016, coal prices have changed trend, they continued their downward evolution after 24 months until halfway through the year and from that time substantially increased. Thus, the API2 index in the first half of 2016 was listed at \$46.89/mt, the API4 at \$53.52/mt and the NewC at \$50.97/mt and in the second half these indices were listed at \$72.68/mt, \$75.37/mt and \$81.19/mt, respectively.

The main reason for this upturn comes from the Asian market, where the decisions of the Chinese government to reduce the number of working hours in the domestic coalmines to, mainly, limit the environmental problems that burning that this mineral produces, have led to a significant increase in imports (50 Mt, 25% increase to 256 Mt, vs. the previous year). This increase has caused a rise in the benchmark index price of international coal in the Asian market (NewC). The other benchmark indices have followed this trend, strong until November/first part December, when all supplies stopped before the celebration of the Chinese New Year.

The importations in India were important in the first half of the year, particularly the import of Colombian coal and petcoke. But after summer, the government's measures, limiting the possibility of exchanging certain currencies, has reduced imports by 10 Mt to 195 Mt, a 5% drop compared to the previous year. In any case, the effect on the coal market due to China is more important and at the end of the year indices remained strong: API2: \$90.08/mt, API4: \$82.99/mt and NewC: \$88.14/mt. In this last section of the year, the gas price, expensive in Europe, and climatology have kept the level of API2 higher than the rest.

The most relevant aspect of the European market continues to be that demand is greater in the Mediterranean countries (Spain, Italy, Turkey, Israel, Egypt and Morocco) than in countries in the north. As already mentioned, a colder than expected winter, with little wind and rain, and high gas prices, have caused an unexpected rise in the API2 \$/mt index at year-end.

A total of 8.6 million tons of coal were imported in 2016 for ENDESA's power plants in Spain, 53% corresponding to Indonesian coal, 37% to bituminous coal and 10% to pet-coke. Additionally, close to 1 million tons were moved to other Group companies.

3.4. Freight market

The reference route BC C4 (South Africa/Rotterdam) for Capesize vessels (150 kt) started 2016 following the downward trend of the previous year, in January being listed at its minimum in 30 years, \$2.2/t, 107% less than the January 2015 average (\$4.55/t). However, throughout the year, route C4 has increased by 183% until being listed at an average of \$6.85/t in the fourth quarter, mainly due to the tax stimulation policy decided by the Chinese government, that increased coal imports by 30% and iron mineral by 9.2% with respect to 2015, and zero growth in Capesize Fleet. It is interpreted that in 2016, 85% of the growth in dry cargo transport demand is explained by Chinese trade.



Los Barrios Power Station, Cadiz

4. El marco regulatorio en 2016

4.1. Main regulatory changes in Spain

Among the relevant aspects in 2016, we have the judgements of the Supreme Court on the subsidised rate. In particular, the Court has allowed the contentious-administrative appeals filed against Royal Decree 968/2014, of 21 November, developing the methodology for fixing the distribution percentages of the amounts to fund regarding the subsidised rate, that concluded that the funding system of the subsidised rate established in article 45.4 of Act 24/2013, of 26 December, is inapplicable due to being incompatible with Directive 2009/72/EC of 13 July 2009, concerning common rules for the internal market in electricity, and recognising companies' rights to recover the amounts provided.

Due to these judgements, the Government has passed Royal Decree-Law 7/2016, of 23 December, regulating the financing mechanisms of the cost of the subsidised rate and other protection measures for protecting electricity consumption in vulnerable consumers, by virtue of which its regulation has been amended.

In November 2016, the definitive liquidation of regulated activities of 2015 were performed, with a surplus of 469 million euros, together with a 550 million euros surplus from definitive liquidation in 2014. The Ministry, additionally considers the balance of revenue in the coming years, once the electricity reform process that started in 2012 has concluded.

Furthermore, the proceedings have started of a series of provisions to enable auctions for new renewable capacity in Mainland Spain, to a maximum of 3,000 MW.

4.1.1. Regulated activities deficit

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

The 2015 definitive liquidation has finally given a surplus of 469 million euros, which has been added to the surplus of 550 million euros from the 2014 definitive liquidation. The Ministry of Energy, Tourism and Digital Agenda also considers that the electricity system will be balanced in the coming financial years.

4.1.2. Generation

Renewables, cogeneration and waste

On 14 January 2016, an auction was held of new renewable capacity on Mainland Spain of 500 MW wind power and 200 MW biomass, in compliance with Royal Decree 947/2015, of 16 October, and Order IET/2212/2015, of 23 October. In said auction, all the power auctioned was awarded with a discount of 100% on the initial investment value considered in said provisions.

On the other hand, the procedures have started of a Royal Decree project and a proposal for Ministerial Order to perform one or several auctions up to a maximum of 3,000 MW for new mainland renewable facilities (repowering is excluded). The auction is considered as technologically neutral, open to renewable technologies, and it was the intention

of the Ministry that it would be performed during the first quarter of 2017.

Additionally, for non-mainland Spain, the Ministry has announced the intention to hold an auction in the first quarter of 2017.

Domestic Coal

In 2015, the then Ministry of Industry, Energy and Tourism, started procedures for Ministerial order to regulate a mechanism that allowed giving continuity to electricity production from domestic coal, guaranteeing compliance with the environmental legislation and favouring fuel diversification as a strategic support for supply security. This proposal recognised a payment of €90,000/MW to those facilities that use domestic coal and which make investments in environmental improvements to reduce nitrogen oxide emissions (necessary for compliance with Directive 2010/75/EU), complying with other requirements. Nevertheless, due to the report from the National Markets and Competition Commission (CNMC) on said proposal, the Ministry began to analyse a new aid proposal to guarantee the burning of domestic coal by the power plants with the aim of not placing supply security at risk, and which was accepted by Brussels.

In October 2016, and after reaching an agreement with the European Commission, the Government authorised the announcement of subsidies for domestic coal mines, which include a complementary subsidy for the 2016-2018 period, both for underground and opencast mines. The subsidy is determined depending on the international coal price (reference API2), in order to reflect the reduction in said international price and the consequent loss of competitiveness of domestic coal. For 2016, the subsidy was set at €10/ ton.

4.1.3. Resale

Voluntary Price for Small Consumers

On 25 November 2016, and due to the judgments handed down by the Supreme Court in relation to the appeals filed

in relation to the resale costs included in the VPSC, Royal Decree 469/2016 has been approved, amending Royal Decree 216/2014, that establishes the methodology for calculating resale costs to be included in the VPSC, and Order ETU/1948/2016, of 24 December 2016, establishing the specific values of said resale costs. This Royal Decree indicates that the resale margin incorporated in the VPSC will consist of 2 components: a fixed charge for contracted power —reviewable every 3 years—, which will remunerate the fixed operating costs of the reference reseller, and a variable hourly charge for active energy consumed, which remunerates the variable operating costs and the remuneration for the financial year of the reference resale activity.

Furthermore, Circular 2/2016, of 28 July, was approved of the National Markets and Competition Commission (CNMC), on the request for information on electricity and natural gas consumer complaints to the resellers and distributors. This Circular clearly and concisely defines the agents involved, the status of complaints, their resolution times and the result of breach of the obligation to send this information.

Subsidised rate

After the judgment of 24 October 2016 by the Contentious-Administrative Court of the High Court declared the financing system of the Subsidised Rate, initially foreseen by Act 24/2013, of 26 December, to be inapplicable as it was incompatible with Directive 2009/72/EC, of the European Parliament and of the Council, of 13 July 2009, on common rules for the domestic electricity market, recognising the right of companies to recover the amounts provided, on 24 December Royal Decree-Law 7/2016, of 23 December, was published, regulating the financing mechanisms of the cost of the subsidised rate and other measures for protecting electricity consumption in vulnerable consumers.

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

The subsidised rate shall be financed by the parent companies of the Groups with resale activity, or by the companies that do so directly. The financing percentage shall be determined annually by the CNMC and shall be proportional to the number of customers. Transitorily, the Royal Decree-Law establishes provisional financing percentages, fixing a percentage of 37.67% for ENDESA.

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

Furthermore, the regulation establishes the categories of vulnerable consumers in which, 4 months after the first reliable payment request (compared with the current 2 months) without this being paid, the supply can be interrupted, in addition to other aspects included in the Royal Decree-Law, a regulation that must be implemented in the maximum period of 3 months since its ratification of the Royal Decree-Law that occurred on 30 January 2017.

Interruptibility

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

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

During the week of 14 -18 November 2016, auctions were held to assign the interruptible power corresponding to 2017, awarding a total power of 2,975 MW, with the aggregate cost of this service coming to €524.8M.

4.1.4. Distribution

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

On 28 November, Royal Decree 1073/2015, of 27 November, was published in those Official State Gazette (BOE), amending the different provisions in the royal decrees of remuneration of electricity grids (Royal Decree 1047/2013, of 27 December, for transmission, and Royal Decree 1048/2013, of 27 December, for distribution). Among other aspects, the Royal Decree eliminates the annual update of unitary values depending on the CPI in accordance with Act 2/2015, of 30 March, of de-indexation of the economy.

On 12 December, Order IET/2660/2015, of 11 December 2015, was published, which establishes for the distribution activity the unitary values of investment, operation and maintenance and of other tasks. It also defines the concepts of vegetative growth, relevant increase in power and the compensations for use and reservation of premises, with the first regulatory period therefore starting on 1 January 2016.

Finally, Order IET/980/2016 of 10 June, was published in the Official State Gazette (BOE) on 17 June 2016, establishing the remuneration of the distribution activity for 2016.

4.1.5. The electricity tariff

2016 electricity tariff

Order IET/2735/2015, of 17 December, establishing the electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters of electricity production facilities from renewable energy, cogeneration and waste sources, maintains the tolls established by Order IET/2444/2014, of 19 December, with the exception of the prices for consumers connected to grids with voltage greater than or equal to 30 kV and less than 36 kV which are reduced to 6.7%, and reduces the unit prices paid by customers to finance capacity payments to 21% with respect to those valid at 31 December 2015.

2017 electricity tariff

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

4.1.6. Gas tariff

2016 gas tariff

Order IET/2736/2015, of 17 December, has maintained, in general, the access tolls with respect to 2015 also having updated the Last Resort Tariffs (TUR) with an average reduction of 3% due to decrease in the costs of raw materials.

2017 gas tariff

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

4.1.7. Other regulatory changes

In the area of Energy efficiency, and due to Act 18/2014, of 15 of October, on urgent measures for growth, competitiveness and efficiency, which establishes a system of obligations for gas and electricity resellers, for wholesaler operators of gas products and for liquefied petroleum gas wholesale operators, Order IET/359/2016, of 17 March, establishes for ENDESA a contribution to the National Energy Efficiency Fund of 29.9 million euros corresponding to the 2016 obligations, with the proposal for contribution corresponding to the 2017 obligations, of 28.9 million euros for ENDESA, currently in progress.

- > Alternatively, and in the terms regulated by the Government, a mechanism of accreditation of achieving an amount of energy savings equivalent to compliance with the System obligations may be established. This mechanism will be based on submitting negotiable Energy Savings Certificates (ESC).
- > The term of the National System of Energy Efficiency obligations shall go from the coming into force of the Spanish Royal Decree-Law, i.e., 5 July 2011, until 31 December 2020.

Furthermore, 2016 has continued to witness the development process of the organised gas market, which came into service at the end of 2015. Thus, the Decision of 6 June 2016, of the Secretary of State for Energy, approving different provisions on the organised gas market, establishes that the market operator, at least every six months, shall perform a call for the provision of a voluntary market creator service. In compliance with said Decision, 25 October 2016 MIBGAS started the call on voluntary market creators corresponding to the first six-months of 2017, for the intraday, day-ahead, rest of month and following month products.

Finally, in 2016 Royal Decree 56/2016, of 12 February, was published transposing Energy Efficiency Directive 2012/27/EU of the European Parliament and of the Council, of 25 October 2012, in relation to energy audits, accreditation of service providers and energy auditors and promotion of en-

ergy supply efficiency. This Royal Decree establishes energy audit obligations for large companies, requirements for energy service providers and the promotion of the energy efficiency in production.

4.2. Regulatory changes in Europe

In Europe, during 2016, an intense regulatory activity continued in relation to the trading of commodities and derivative financial products, continuing with the lower ranking legislative developments of the various legislation passed in previous years: The Markets in Financial Instruments Directive (MIFID) and the corresponding regulations (MIFIR) as well as the Market Abuse Directive (MAD) and its regulations (MAR), establishing the practical conditions and the application details of this legislation.

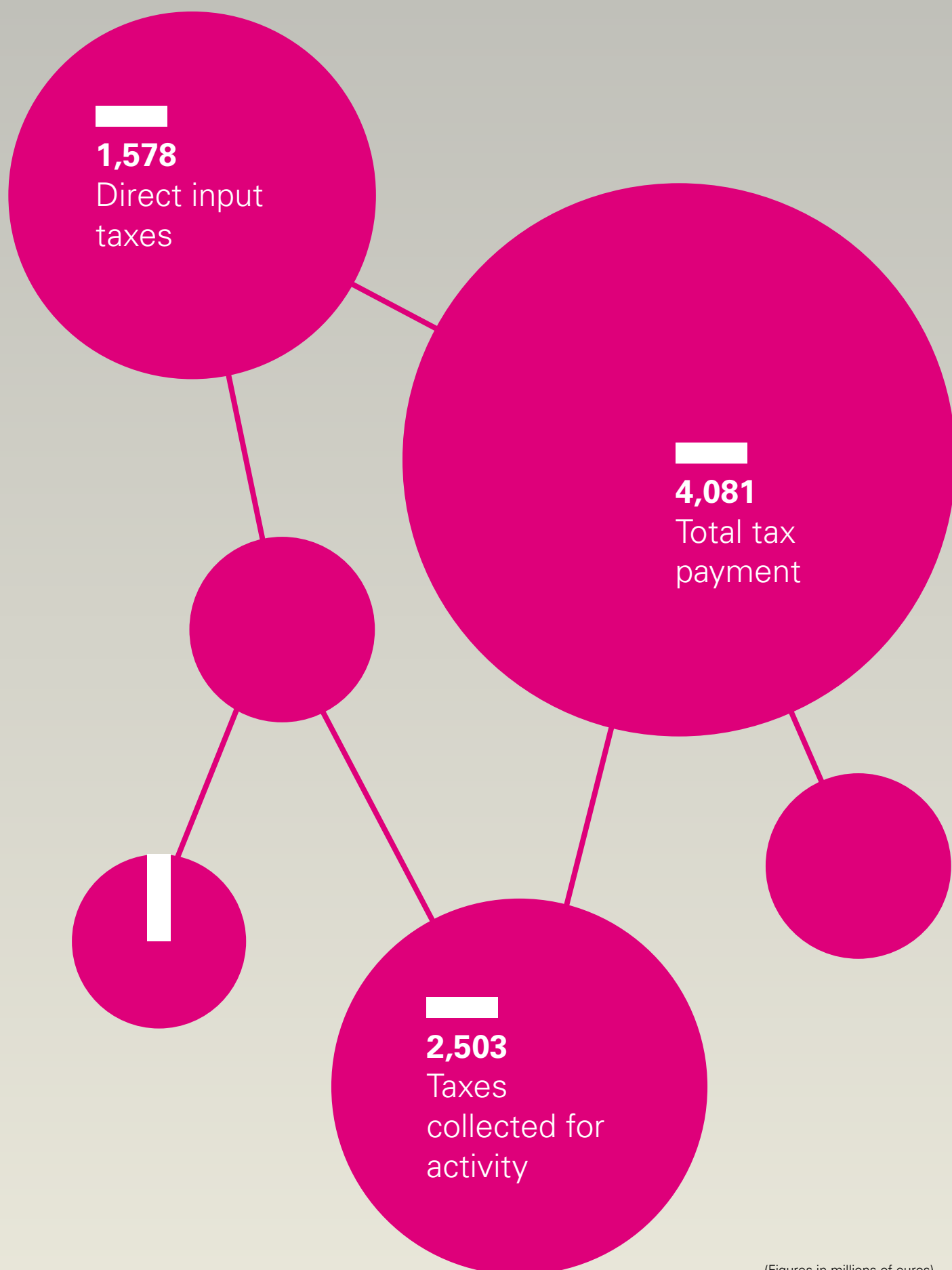
Furthermore, progress has continued to be made in the project to integrate the European electricity and gas markets.

Specifically, on 30 November 2016 the European Commission has published a new legislative package, "Smart and clean energy for all Europeans," a set of regulatory proposals and measures that have the aim of modernising the economy and relaunching investments in the industries related to clean energy.

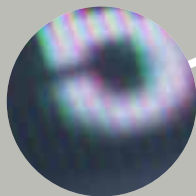
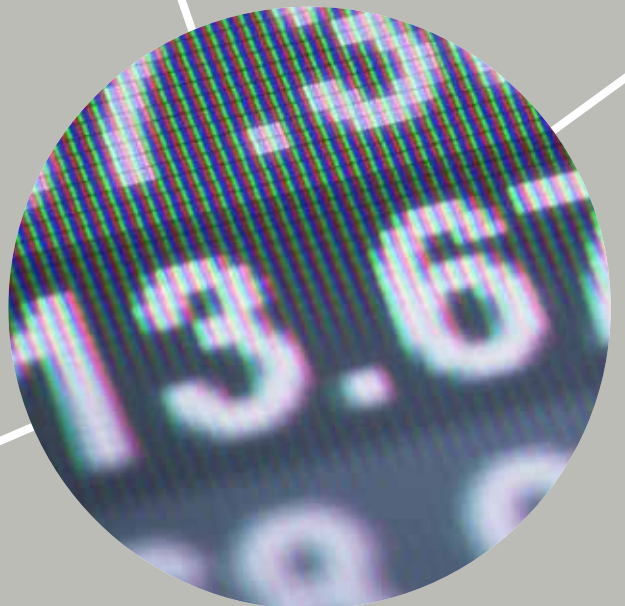
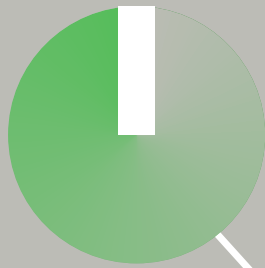
The legislative proposals include energy efficiency, renewable energies, electricity market design, supply security and the rules of governance relating to compliance with the 2030 objectives. The package has 3 main objectives: (i) placing energy efficiency in the forefront; (ii) achieving world leadership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

The proposal shall, among many other things, involve the revision of the current electricity, renewables and energy efficiency directives.

All proposals must pass through Parliament and the Council, so that it is estimated that the procedures will extend to the end of 2018 and which will come into force in 2019.



(Figures in millions of euros)





1. Economic and financial results

1.1. Consolidated key figures

1.1.1. Net profit

The results achieved in 2016 have exceeded the commitments made by ENDESA to the markets in the 2016-2019 strategic plan, both in EBITDA and net profit.

ENDESA obtained a net profit of 1,411 million euros in financial year 2016, a 29.9% increase compared with the 1,086 million euros obtained in 2015.

The net profit of financial year 2016 included a net impact of 38 million euros, positive due to ENDESA's holding in the share capital of Enel Green Power España, S.L.U. (EGPE) (see Section 2.1. *Acquisition of Enel Green Power España, S.L.U. (EGPE)* of the Consolidated Management Report within the Legal Report, pages 401 and 402). The 2015 net profit included a positive result of 10 million euros due to

the 40% holding in the share capital of Enel Green Power España, S.L.U. (EGPE).

Below, we show distribution of the net profit among ENDESA's businesses and its variation with respect to the same period of the previous financial year:

Millions of euros

	Net profit			
	2016	2015	% Var.	% Cont. to Total
Generation and Resale ¹	751	506	48.4	53.2
Distribution	771	581	32.7	54.6
Structure and Other ²	(111)	(1)	Na	(7.8)
Total	1,411	1,086	29.9	100.0

¹ Includes net profit generated by Enel Green Power España, S.L.U. (EGPE) in financial years 2016 and 2015, for an amount of 38 million euros and 10 million euros, respectively.

² Structure, Services and Adjustments.

The information by segments corresponding to the financial year end 31 December 2016 has the following most relevant figures:

Millions of euros

	2016				2015			
	Generation and Resale	Distribution	Structure and Other ¹	Total	Generation and Resale	Distribution	Structure and Other ¹	Total
Revenue	16,628	2,538	(187)	18,979	17,911	2,582	(194)	20,299
Contribution margin	3,344	2,399	(91)	5,652	3,113	2,445	(77)	5,481
EBITDA ²	1,850	1,788	(206)	3,432	1,570	1,569	(100)	3,039
EBIT ³	1,065	1,131	(231)	1,965	814	906	(122)	1,598
Financial result	(154)	(123)	95	(182)	(157)	(129)	100	(186)
Pre-tax result	822	1,020	(132)	1,710	623	786	(18)	1,391
Net result	751	771	(111)	1,411	506	581	(1)	1,086

¹ Structure, Services and Adjustments.

² EBITDA = Revenue - Procurement and Services + Works performed by the Group for its assets- Staff costs. Other fixed operating costs.

³ EBIT = EBITDA - Amortisations and Impairment losses.

More information in page 403 of the Legal report, "2.2. Consolidated results".

1.1.2. Analysis of Results

Margins

ENDESA's contribution margin obtained in financial year 2016 was 5,652 million euros, 171 million euros higher than the previous year (+3.1%). The 2016 EBITDA was 3,432 million euros (+12.9%) and the EBIT increased by 367 million euros (+23.0%) compared to the previous financial year, standing at 1,965 million euros. Below, we show the distribution of the EBITDA and EBIT among ENDESA's businesses and their variation compared to the same period of the previous financial year:

- > In both financial years, and within the framework of the various workforce optimisation projects (within ENDESA's restructuring and reorganisation Plan), provisions were recorded for 226 million in 2016 and 380 million euros in 2015 to cover the costs of the personnel reduction plans.

If we isolate the previous effects, in 2016 the EBITDA increased by 348 million euros (+10.8%) mainly due to:

- > Reduction in fuel consumption (–22.2%), due to lower liquid fuel price, and in energy purchases (–15.4%), which was higher than the decrease in average sale price.

Millions of euros

	Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) ³				Operating Result (EBIT) ⁴			
	2016	2015	% Var.	% Cont. to Total	2016	2015	% Var.	% Cont. to Total
Generation and Resale ¹	1,850	1,570	17.8	53.9	1,065	814	30.8	54.2
Distribution	1,788	1,569	14.0	52.1	1,131	906	24.8	57.6
Structure and Other ²	(206)	(100)	Na	(6.0)	(231)	(122)	Na	(11.8)
Total	3,432	3,039	12.9	100.0	1,965	1,598	23.0	100.0

¹ Financial year 2016 includes the EBITDA and the EBIT generated by Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016, for an amount of 75 million euros and 16 million euros, respectively.

² Structure, Services and Adjustments.

³ EBITDA = Revenue - Procurement and Services + Works performed by the Group for its Assets - Staff costs.

- Other fixed operating costs.

⁴ EBIT = EBITDA - Amortisations and Impairment losses.

To analyse the evolution of the EBITDA during financial year 2016 the following factors must be considered:

- > In 2016 ENDESA took control over Enel Green Power España, S.L.U. (EGPE) with a contribution to the EBITDA since 27 July 2016 of 75 million euros.
- > In financial year 2015, the EBITDA included the positive result of 184 million euros obtained from the *forward* sale materialised on 17 December 2015 regarding the European Union Allowances (EUAs) obtained by virtue of the exchange process of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) regulated in Regulation (EU) No. 389/2013, articles 58-61.

- > The decrease in other variable supplies and services by 313 million euros (–14.8%) mainly due to reduced cost of carbon dioxide (CO₂) emissions due to the lower thermal production of the period, and decrease in the fees and taxes associated to electricity production due to less production in the period, and of the regularisation of the nuclear tax of Catalonia after the judgement of the Constitutional Court of 20 April 2016 declaring its unconstitutional nature (88 million euros).

The 2016 EBIT increased 23.0% compared to the same period of the previous year, standing at 1,965 million euros, despite the increase of 1.8% of Amortisations and Impairment Losses basically due to the increase of 59 million euros because of the takeover of Enel Green Power España, S.L.U.

Without considering the takeover operation of Enel Green Power España, S.L.U. (EGPE), the carbon dioxide (CO₂) emissions exchange rights operation and the costs of workforce reduction plans mentioned in the previous paragraphs, the 2016 EBIT increased by 381 million euros (+21.2%).

Revenue

The revenue was 18,979 million euros in 2016, in comparison with 20,299 million euros obtained in 2015, which was a 6.5% decrease. From this amount, 18,313 million euros correspond to the sales figure (–5.0%) and 666 million euros to other operating revenue (–34.6%). Below, we show the distribution of sales and other operating revenue among ENDESA's businesses and their variation compared to the same period of the previous financial year:

Millions of euros								
	Sales				Other Operating revenue			
	2016	2015	% Var.	% Cont. to Total	2016	2015	% Var.	% Cont. to Total
Generation and Resale ¹	16,190	17,166	(5.7)	88.4	438	745	(41.2)	65.8
Distribution	2,268	2,264	0.2	12.4	270	318	(15.1)	40.5
Structure and Other ²	(145)	(149)	Na	(0.8)	(42)	(45)	Na	(6.3)
Total	18,313	19,281	(5.0)	100.0	666	1,018	(34.6)	100.0

¹ Financial year 2016 includes the sales of Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016, for an amount of 118 million euros.

² Structure, Services and Adjustments.

More information on page 404 of the Legal report, "Analysis of results".

Sales

The 2016 sales were 18,313 million euros and they can be detailed as follows:

Millions of euros				
	Sales			
	2016	2015	Difference	%Var.
Electricity sales	13,541	14,168	(627)	(4.4)
Deregulated market sales	8,213	8,425	(212)	(2.5)
Sale to Deregulated Market Customers outside of Spain	961	987	(26)	(2.6)
Regulated Market Sales	2,412	2,885	(473)	(16.4)
Wholesale market sales	875	815	60	7.4
Compensations of Non-Mainland Territories (TNP)	1,015	1,044	(29)	(2.8)
Other Electricity sales	65	12	53	441.7
Gas sales	2,079	2,378	(299)	(12.6)
Regulated Revenue from Electricity Distribution	2,054	2,048	6	0.3
Other Sales and Service Provision	639	687	(48)	(7.0)
Total	18,313	19,281	(968)	(5.0)

¹ Financial year 2016 includes the sales of Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016, for an amount of 118 million euros.

Financial year 2016 was characterised by low prices, with the arithmetic mean in the wholesale electricity market being €39.7/MWh (–21.2%) mainly due to the high wind and hydroelectric production, the generation of which has covered more than 40% of mainland electricity demand, and the reduced commodities prices. Mainland demand has continued

with the trend for growth started in 2015 after 4 consecutive years of falls and has increased by 0.6% compared to the previous year. After correcting the employment factors and temperature effects, the mainland demand decreased 0.1% in 2016 with respect to the previous financial year. The annual electricity demand in the Non-Mainland Territories ended

2016 with a 1.1% increase with respect to the previous year. For the first time since 2003, part of the electricity demand has been covered with the international exchange importer balance.

In this scenario, ENDESA's ordinary mainland electricity production in financial year 2016 was 55,985 GWh, 7.7% lower than financial year 2015 as follows: coal power plants (-21.6%), Combined Cycle (+11.0%), nuclear power plants (+0.6%) and hydroelectric (+0.0%).

The nuclear and hydroelectric technologies represented 59.1% of ENDESA's mainland generation mix in ordinary regime (54.3% in 2015), against 62.0% of the rest of the sector (52.0% in 2015). ENDESA's production in 2016 through renewable technologies has been 1,212 GWh and the production in the Non-Mainland Territories (TNP) was 12,634 GWh (+2.1%).

On 31 December 2016, ENDESA achieved a market share of 35.1% in ordinary mainland generation, 43.7% in distribution and 35.3% in sales to deregulated market customers.

During 2016, gas demand has increased 2.1% compared to the previous year and, on 31 December 2016, ENDESA achieved a market share of 16.9% in sales to deregulated market customers.

Sales to deregulated market customers

On 31 December 2016, the number of ENDESA customers in the deregulated market was 5,423,040, a rise of 6.7% compared to the number of customers on 31 December 2015.

In 2016, ENDESA's sales to this group of customers represented an increase of 2.2% with respect to 2015.

In economic terms, sales in the Spanish deregulated market were 8,213 million euros in 2016, 212 million euros less than 2015 (-2.5%), since the increase in physical units sold has not compensated the decrease in average sale price to the end customer. In turn, revenue for sales to deregulated market customers outside of Spain was 961 million euros,

26 million euros (-2.6%) less than financial year 2015, also due to a reduction in average sale price.

Sales at regulated price

During 2016, ENDESA sold, through its Reference Reseller, to customers that the regulated price is applied to, 7.5% less than during 2015.

These sales have meant a revenue of 2,412 million euros in 2016, 16.4% less than in 2015 due to a drop in the physical units sold and lower sale price.

Gas sales

ENDESA has sold 78,129 GWh to natural gas market customers in 2016, a 9.1% increase compared to 2015 mainly due to the 30.5% increase in sales in markets outside of Spain. In economic terms, revenue due to gas sales were 2,079 million euros, 299 million less (-12.6%) than in 2015, as a consequence of decrease in average sale price.

More information on page 406 of the *Legal report*, "Sales".

Other operating revenue

Other operating revenue has amounted to 666 million euros with a decrease of 352 million euros compared to the amount recorded in 2015 (-34.6%).

2016 has seen a decrease of 102 million euros in the revenue for valuation and settlement of energy material derivatives, compensated by a decrease in costs (of the same item) for an amount of 177 million euros.

Electricity distribution

ENDESA distributed 115,602 GWh in the Spanish market during financial year 2016, in line with the energy distributed in 2015 (+1.2%). The regulated revenue of the distribution activity during 2016 amounted to 2,054 million euros, 6 million euros more (+0.3%) than in 2015.

Operating costs

Millions of euros

	Operating costs			
	2016 ¹	2015	Difference	%Var.
Procurement and Services	13.327	14.818	(1.491)	(10,1)
Energy purchases	4.056	4.795	(739)	(15,4)
Fuel consumption	1.652	2.123	(471)	(22,2)
Transport costs	5.813	5.781	32	0,6
Other Procurement Variables and Services	1.806	2.119	(313)	(14,8)
Staff costs	1.128	1.332	(204)	(15,3)
Other Fixed Operating Costs	1.209	1.212	(3)	(0,2)
Amortisations and Impairment Losses	1.467	1.441	26	1,8
Total	17.131	18.803	(1.672)	(8,9)

¹ Financial year 2016 includes the operating costs of Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016, for an amount of 102 million euros.

Procurement and services

The 2016 procurement and services costs (variable costs) have amounted to 13,327 million euros, with a decrease of 10.1% compared to the previous financial year. It was distributed as follows:

Millions of euros

	Procurement and Services			
	2016	2015	% Var.	% Cont. to Total
Generation and Resale ¹	13,284	14,798	(10.2)	99.7
Distribution	139	137	1.5	1.0
Structure and Other ²	(96)	(117)	Na	(0.7)
Total	13,327	14,818	(10.1)	100.0

¹ Financial year 2016 includes the Procurement and Services of Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016, for an amount of 14 million euros.

² Structure, Services and Adjustments.

Staff costs and other fixed operating costs (fixed costs)

2016 fixed costs were 2,337 million euros, with a decrease of 207 million euros (–8.1%) with respect to 2015.

2016 “Staff costs” were 1,128 million euros, with a decrease of 204 million euros (–15.3%) with respect to 2015.

In 2016 and 2015, staff costs have been affected by the variations in provisions and workforce restructuring in both years, among which we can highlight the endowment of the provisions due to contract suspensions (226 million euros in 2016 and 380 million euros in 2015), the evolution of the up-

dating of the provisions for collective dismissal procedures and contract suspensions (17 million euros in 2016 and 19 million euros in 2015, both positive), and the reduction in the endowment of provisions to deal with compensations and occupational risks (net endowment of 14 million euros in 2016 and 42 million euros in 2015).

As regards the “Other Fixed Operating Costs”, they were 1,209 million euro in 2016, a decrease of 3 million euros (–0.2%)–2.1% isolating the effect of the incorporation of Enel Green Power España, S.L.U. (EGPE), compared to the previous financial year.

Amortisations and Impairment losses

The 2016 amortisations and Impairment losses were 1,467 million euros, an increase of 26 million euros (+1.8%) with respect to 2015. These figures are due to incorporating Enel Green Power España, S.L.U. (EGPE) in the consolidation perimeter, the accumulated cost of which since the takeover date has been 59 million euros, and to the net endowment of provisions due to tangible asset impairment for an amount of 17 million euros (with 12 million euros for reversion of provisions endowed in previous financial years on generation and distribution assets, and 29 million euros to land impairment as per the valuations made by independent experts. If we isolate these effects, the amortisations and Impairment losses would have been 1,391 million euros (+0.2%).

More information on page 407 of the *Legal report*, “Operating costs”.

Net financial result

The net financial result of 2016 has been negative for an amount of 182 million euros, which represents a decrease of 4 million euros (–2.2%) with respect to the previous financial year. The distribution of the 2016 net financial result is as follows:

	Financial result			
	2016	2015	% Var.	% Cont. to Total
Financial revenue	44	55	(20.0)	(24.2)
Financial expenses	(222)	(229)	(3.1)	122.0
Net exchange differences	(4)	(12)	(66.7)	2.2
Total¹	(182)	(186)	(2.2)	100.0

¹ The financial net result of Enel Green Power España, S.L.U. (EGPE) from the date of its takeover, 27 July 2016 has not been significant.

In 2016, the net financial expenses were 178 million euros, 4 million euros more (+2.3%) than the previous year. The evolution of long-term interest rates, both in 2016 and 2015, has meant an update in the provisions to deal with the obligations arising from the collective dismissal procedures in force and contract suspension provisions, which has given a higher cost for an amount of 45 million euros in 2016.

1.1.3. Cash flows

On 31 December 2016, the amount of cash and other cash equivalents was 418 million euros (346 million euros on 31 December 2015). On 31 December 2016 and 2015, ENDESA's net cash flows, classified by operating activities, investment and financing, have been as follows:

	Cash flows			
	31 December 2016	31 December 2015	Difference	% Var.
Net cash flows from operating activities	2,995	2,656	339	12.8
Net cash flows from investment activities	(2,317)	(773)	(1,544)	199.7
Net cash flows from financing activities	(606)	(2,185)	1,579	(72.3)

In 2016, the net cash flows generated by operating activities (2,995 million euros) activities were sufficient to deal with the necessary investments to develop ENDESA's businesses (2,317 million euros) in addition to the net cash flows from the financing activities (606 million euros), with an increase during the period of 72 million euros in cash and other cash equivalents.

More information on page 422 of the *Legal report*, «Cash flows».

1.1.4. Net worth

On 31 December 2016, ENDESA, S.A.'s share capital is 1,270,502,540.40 euros and is represented by 1,058,752,117 shares of 1.2 Euros nominal value, totally subscribed and paid up which are fully admitted to be listed on the Spanish Stock exchanges.

	31 December 2016	31 December 2015
Total Net worth of the Parent Company	8,952	9,036
Share capital	1,271	1,271
Share Premium	89	89
Legal Reserve	254	254
Revaluation Reserve	404	404
Other Reserves	106	106
Adjustments for changes in value	(38)	(120)
Conversion differences	1	—
Asset and Liability Revaluation Reserve	(39)	(120)
Reserve for actuarial gains and losses	(757)	(584)
Retained earnings	8,364	8,040
Interim dividend	(741)	(424)
Total Net worth of the Minority Interests	136	3
Total Net worth	9,088	9,039

This figure has not changed in 2016 and 2015.

The percentage of ENDESA, S.A.'s share capital that Enel Group holds, through Enel Iberoamérica, S.L.U., on 31 December 2016 and 2015 is 70.101%. On these same dates, no other shareholder held shares worth more than 10% of ENDESA, S.A.'s share capital.

More information on page 284 of the *Legal report*, «Net worth».

1.2. Financial management

During 2016, the evolution of sovereign debt interest rates in Europe has been conditioned by the actions of the European Central Bank (ECB), which has made it possible to maintain minimum interest rates in Spanish public debt, reaching levels below 1%. The Spanish differential compared with the German 10-year bond was 118 basis points at 2016 year-end, similar levels to 2015 year-end. In contrast, other indebted Euro zone economies increased their country risk. The differential against the German 10-year bond of Italy and Portugal increased during 2016 to 161 and 356 basis points, respectively, at financial year-end, a deterioration of 64 and 167 basis points, respectively, compared with 2015.

The ECB reduced the interest rates of the Euro zone to the historic minimum of 0% and extended the banking system's expansionary monetary and supervision measures. The ECB continued to use the sovereign bond purchase program and increased the financial assets on which it could act.

During 2016, the long-term interest rate of the euro (10-year swap) decreased, going from 1.00% at the start of the year to 0.66% at year-end. For its part, the short-term interest rate (3-month Euribor) decreased from -0.13% to an even more negative value of -0.32%. The long-term interest rates of the US dollar (USD), increased during 2016 from 2.19% to 2.34%. The 3-month interest rate of the US dollar (USD) increased from 0.61% to 1.00% at 2016 year-end.

The euro depreciated 3.2% against the US dollar (USD) during 2016, going from a euro/US dollar (€/USD) exchange rate of 1.09 at the start of the year to 1.05 at the end of 2016, affected by the divergence between the monetary policies of the European Central Bank (ECB) and the US Federal Reserve (FED).

In the setting described, ENDESA maintains a solid financial situation and a comfortable level of liquidity and access to medium and long-term financial resources which allow it to guarantee availability of the necessary resources to deal with its commitments for future investments and debt maturities.

ENDESA maintains criteria of prudence similar to those applied up to now in the structure of its financing obtaining medium and long-term financing to adapt the maturity calendars to the cash generation capacity in the business plan. To do this, it resorts to external financing, especially through the banking market. Likewise, it obtains funds from public entities which offer advantageous conditions in very long-term operations. It also has short-term financing that contributes to optimising management of working capital requirements and improving the cost of the debt overall. This financing is instrumented through banking lines of credit with first-rate entities or by issue of "Euro-commercial Paper". ENDESA also performs operations with Enel Group companies where the applicable regulations over transfer prices are observed.

The available liquidity is instrumented through cash volumes and lines of credit with first-rate institutions and with the Enel Group whose availability is unconditional and irrevocable.

The incorporation of Enel Green Power España in the ENDESA group has not meant any change in financial management criteria of the Company.

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

ENDESA's net financial debt was 4,938 million euros on 31 December 2016, an increase of 615 million euros compared to the previous year-end. The average cost of ENDESA's debt was 2.5 % in 2016.

At year-end, the gross financial debt was denominated in Euros 100%. The total volume of gross financial debt at fixed rate was 68% on 31 December 2016, whilst the remaining 32% was variable interest rate. The average life of the gross financial debt of ENDESA and its subsidiaries was equal to 6.5 years in December 2016.

The liquidity rose to 3,620 million euros, of which 3,202 million corresponded to amounts unconditionally available in

lines of credit, from which 1,000 million corresponded to a line of credit with Enel Finance International, N.V. This liquidity level allows having a coverage equal to 17 months in debt maturity.

Structure of ENDESA's Gross financial debt

	31 December 2016	31 December 2015	Difference	%Var.
Euro	5.367	4.680	687	14,7
Total	5.367	4.680	687	14,7
Fixed rate	3.661	3.537	124	3,5
Variable rate	1.706	1.143	563	49,3
Total	5.367	4.680	687	14,7
Average life (no. years)	6,5	8	—	—
Average cost (%)	2,5	2,7	—	—

Figures in millions of euros.

1.2.2. Credit rating

At the time of presenting the report, ENDESA's long-term credit rating is "BBB" in Standard & Poor's with stable outlook, "Baa2" in Moody's and "BBB+" in Fitch Ratings, all with negative outlook.

1.2.3. Leverage ratio

ENDESA's leverage ratio on 31 December 2016 came to 54.3% compared with 47.8% of 31 December 2015.

1.2.4. Main financial operations

The following operations can be highlighted from among those performed in 2016:

- > On 30 December 2016, ENDESA S.A. renewed the uncommitted intercompany credit line with Enel Finance International, N.V., for an amount of 1,500 million euros and maturity on 31 December 2017. The price to be applied to the draw-downs is index-linked at the cost of Enel commercial paper issue plus a margin of 6 basis points, and if said reference is not available, the yield of the 1-year Enel curve adjusted with a formula defined until the specific period of the required draw-down. On 31 December 2016, the uncommitted intercompany line of credit is not drawn-down.
- > Within the framework of the financial operation (ENDESA Network Modernisation) formalised with the European Investment bank in September 2014, tranche B was formalised on 14 July 2016 for an amount of 150 million euros and tranche C on 14 December 2016 for an amount of 150 million euros, completing the operation for an overall amount of 600 million euros.

2. Stock market performance and investor relations

2.1. ENDESA in the stock market

2016 was a year of ups and downs characterised by important political events that gave rise to great restlessness in the markets. Among these we can highlight the referendums held in June in the UK, where the country's exit from the European Union was approved, and in December in Italy, where reform to the constitution was proposed but finally rejected. Likewise, general elections were held in several countries, particularly the USA in November, with a change in the presidency not foreseen in the polls, and that of Spain in June, although a government was not formed until November.

The markets were also keeping an eye on the doubts about a possible economic recession in China, after this country decided to devalue its currency in January, in addition to the decisions on the interest rates adopted by the main Central Banks. The US Federal Reserve resumed the bullish path of interest rates in December 2016, whilst the European Central Bank decided to maintain and extend its debt purchase program. This different monetary policy between the US and EU was reflected in the dollar listing, almost equal to the euro.

Despite this scenario of political uncertainty and risk, the main world stock exchanges managed to close the year positively, the sole exceptions being the Italian, whose MIB index fell 10.2%, and the Spanish, where the selective Ibex-35 dropped 2.01%, both markets pressured by the poor performance of the banking industry. The Pan-European index "Eurostoxx 50" closed with a slight gain of 0.7%, below the French (Cac-40: +4.86%) and German (Dax: +6.87%) stock markets, which were much more optimistic. However, the most relevant aspect among the European markets was the positive performance of the British market, since the Footsie 100 rose substantially in the second half of the

year, after discovering the result of the referendum where its exit of the European Union was agreed. The depreciation of the pound sterling favoured the listing of British exporting companies, which led the index to close the financial year with a noteworthy +14.43%, even reaching historic maximum levels.

Out of the other non-European markets, the good performance of the US indices stood out, setting new maximums in an electoral year. The "Dow Jones" index closed ahead with a revaluation of 13.42%, followed by the "S&P 500" (+9.54%) and "Nasdaq" (+5.89%). The Japanese index "Nikkei" showed a much more moderate behaviour and closed the year practically unchanged (+0.42%). Also positive, the Latin American markets had a year of recovery and closed 2016 with significant gains, helping to uphold the listings of the Spanish companies with interests in that region. The Peruvian stock market led the classification with a rise of 58.06%, followed by the Argentinean and the Brazilian with upturns of 44.9% and 38.9%, respectively. Somewhat more moderate, but also positive, the Colombian (+17.16%), Chilean (+12.8%) and Mexican (+6.20%) stock markets ended the year.

In Spain, the Ibex-35 (-2.01%) closed its second consecutive year with losses, but the recovery it showed was considerable after the minimums of 27 June, little after finding out the result of the British referendum, when it accumulated a drop close to 20%. Particularly significant was the rise in the last month of the year (7.6%), which meant the best month of December in the last 20 years, although it was insufficient to end the year positive.

By sectors, the worst performance was the banking industry, infected by the lack of liquidity of the Italian banks and the exposure that some Spanish banks had to regions at the centre of political uncertainty, such as the UK, Mexico, USA or Turkey, a country that suffered a failed coup in the month of July. In contrast, the securities associated with the evolution of basic materials occupied the top posts of

the Ibex, encouraged by the important price recovery during the year, such as steel or crude. Brent oil barrels rose 52% until closing at annual maximums of around \$57 awaiting the coming into force of the historic agreement reached by the OPEP in November to reduce monthly crude production after 1 January 2017.

The general evolution of the European electricity industry, summarised in the "Dow Jones Eurostoxx Utilities" sector index, was also negative. The index ended with a drop of 7.75% affected by an asset rotation process in the second half of the year faced with the expectations of interest rate rises. The worst performance of this index corresponded to the French and German companies, due to the doubts about the capacity of their balances to deal with regulatory changes and adverse market situations. In the specific case of the two main German companies, E.On AG and RWE AG, both carried out corporate restructuring processes, which led to the division and creation of two new companies that began to be listed on the stock exchange and form part of the industry index in the fourth quarter, Uniper SE and Innogy SE, respectively.

Among the Spanish electricity companies, that closed with generalised drops close to 5%, ENDESA led the industry with a revaluation of 8.64%, as it was perceived as one of the star defensive securities of the year. For investors ENDESA's main attraction lies in the high payment provided to shareholders through its dividend policy, which was confirmed and improved in the update of the 2017-2019 Strategic Plan performed on 23 November. Another very highly valued aspect of the new Plan was the new investor cycle the company entered into, which was specified by an increase of 1,000 million euros of additional investment in the 2016-2019 period, mainly centred in the new line of renewable generation business.

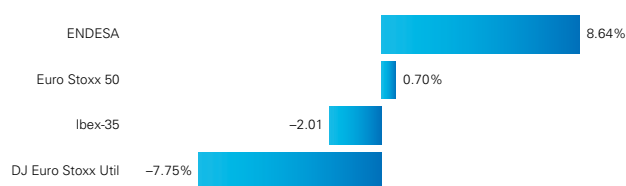
With respect to the dividend policy, charged to 2016 results, and complying with the new provisions, ENDESA anticipates distributing a dividend of 1.32 euros per share, 29% higher than 2015, which will give a yield above 7% for those shareholders who had bought their shares on 31 December

2015. In the 2017-2019 period, the remuneration will come to 100% of the net ordinary result of the Company, with a minimum dividend of 1.32 euros per share set for 2017.

In that regard, to the positive stockmarket yield of 8.64% achieved by ENDESA in 2016, it is necessary to add a yield per dividend of 5.54% provided by 1.026 euros per share paid as ordinary dividend charged to the 2015 results, which meant that the total yield for the shareholder, calculated as the sum of the stockmarket yield and the yield per dividend, came to 14.18% in 2016.

ENDESA's listing closed the financial year with a value of 20.125 euros per share, very close to the maximum annual of 20.975 euros reached on 27 December 2016. The minimum close value, 15.74 euros per share, was recorded on 11 February 2016 as it was dragged along, together with the other Ibex 35 securities, due to the risk of recession in China.

Evolution of ENDESA in the Madrid Stock Market and comparison with the main benchmark indices. 2016



At 2016 year-end, ENDESA's stock market capitalisation was 21,307 million euros, placing it as 6th security with greatest capitalisation of the Ibex-35.

Evolution of ENDESA's stock market capitalisation (2010-2016)



Main statistical information of ENDESA's share in 2016

Continuous market	Maximum	Minimum	Average	Close	% Annual revaluation	% Total yield	Volume of shares traded
ENDESA (euro/share)	20.98	15.74	18.15	20.125	8.64	14.18	596,186,291

Source: Madrid Stock Exchange.

2.2. Dividend

In accordance with the dividend policy approved by the ENDESA Board of Directors on 20 November 2015 for the 2015-2019 period, the General Shareholders' Meeting held on 26 April 2016 approved the distribution of total ordinary dividend charged to the closed result of financial year 2015 for a gross amount of 1.026 euros per share, a quantity equivalent to 1,086 million euros. This dividend was paid to the shareholders in two cash payments made on 4 January 2016 of 0.4 euros gross per share (424 million euros in total), and 1 July 2016, of 0.626 euros per share (663 million euros).

Looking ahead to the coming years, the Company Board of Directors, in its session held on 22 November 2016, approved the following Dividend policy:

- > Financial year 2016: the ordinary dividend per share agreed to be distributed charged to both financial years shall be equal to 100% of the net result attributable to the Parent company resulting from the consolidated annual accounts if said amount is greater than the result of applying the minimum growth of 5% with respect to the ordinary dividend distributed charged to the previous financial year.
- > Financial years 2017 to 2019: the ordinary dividend per share agreed to be distributed charged to these financial years shall be equal to 100% of the ordinary net profit attributed to the Parent company in the consolidated annual accounts of the group headed by them.

In particular, for financial year 2017, the Board of Directors approved that said ordinary dividend is at minimum equal to 1.32 euros gross per share.

It is the Board of Director's intention that the payment of the ordinary dividend is made exclusively in cash by its crediting in two payments (January and July) on the specific date determined in each given case and which shall be subject to appropriate notification.

As regards ordinary dividends charged to the financial-year results 2016, the ENDESA, S.A. board of directors, in its meeting held on 22 December 2015, agreed to distribute and interim dividend to its shareholders for a gross amount of 0.70 Euros per share.

The payment of this dividend, which has meant an approximate disbursement of 741 million Euros was made on 2 January 2017.

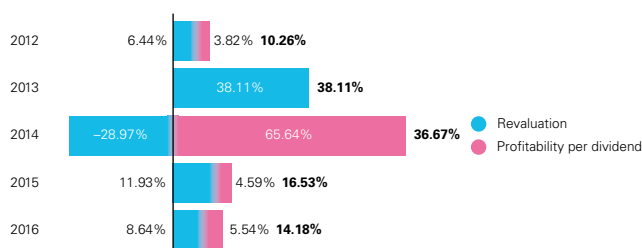
2.3. ENDESA in the main benchmark indices

2.3.1. Profitability for the shareholders

As indicated above, the total profitability for ENDESA shareholders was 14.18% in 2016, 8.64% coming from the stock market profitability achieved by the share and the remaining 5.54% from the profitability provided by the dividends paid in the financial year.

In the last 5 years, the average total profitability for ENDESA shareholders has been 23.15% per annum.

Evolution of total profitability for ENDESA shareholders 2012-2016



2.3.2. ENDESA in the IBEX 35

Since its return to Ibex-35 in November 2014, ENDESA is weighted in this index with a coefficient of 40% of the capital, since its freefloat is 29.9%, in the tranche between 20% and 30%.

With this weighting, ENDESA's shares ended 2016 at number 16 of the Ibex 35 by capitalisation level adjusted by free-float.

2.3.3. Liquidity

The mean daily share figure of ENDESA shares traded in 2016, considering trading in the Continuous Market and including the blocks and special operations, amounted to 2,319,791 actions, 35.4% less than 2015, which was 3,592,972 shares.

The total volume traded in 2016 was a rotation 0.56 times the Company capital. However, this rotation was 1.9 times considering not only the number of real shares in circulation at year-end, 29.9% of the capital after the initial public offering carried out in 2014.

2.3.4. ENDESA's rating

The fixed income market in 2016 was again characterised by volatility, explained both by the expansive monetary policy some of the main Central Banks are involved in (ECB, Bank of England and Bank of Japan) and due to the markets' reaction to political events during the financial year.

In the case of the ECB, the year's main milestones occurred on 8 December, when various decisions were made:

- > Extension of the asset purchase program to December 2017 (instead of March 2017 as previously established).
- > The reduction of the purchases program to 60,000 million euros monthly with effect from April 2017 (from the previous 80,000 million).
- > The expansion of the bond maturities that the central bank can buy lowering minimum maturity to a year (the previous limit was 2 years) and the possibility of also buying bonds with performance below the deposit rate.

Said meeting also decided to maintain the interest rates and deposit facility unchanged, at 0% and -0.4%, respectively, its historical minimums.

In the case of the US Federal Reserve, interest rates were raised by 25 basis points to 0.75% and it was indicated that in 2017 there would be a further three ¼ point rises.

The yield minimums of the 10-year bonds, in the case of the German and US bonds, were recorded between the end of June and start of July, coinciding with the dates when the UK voted to leave the European Union. Then, the German bond was around at -0.20% and the US 10-year bond 1.35%. In the case of the Spanish 10-year bond, its minimum was recorded in September, reaching levels of 0.8%.

In contrast, the yield maximums of these financial assets were recorded a few weeks after Donald Trump was elected as President of the USA. The market interpreted his economic and political discourse as a potential creator of inflationary tensions. Thus, the US 10-year bond had levels of 2.6%, the German 10-year bond levels of 0.4% whilst the Spanish 10-year bond raised yield to levels of 1.6%.

In the strictly domestic arena, where political uncertainty has been present practically year-long, Spain's rating was barely modified in 2016. Only Moody's lowered the outlook to Stable (from Positive) keeping its credit rating Baa2. This measure took place in the month of February and it was argued based on the lack of confidence that the Government, acting at that point, was going to continue with the reform route.

As regards the electricity industry, a line of good health is maintained in terms both of demand stability and tariff sufficiency. In this last regard, the last forecast from the Ministry of Industry indicates a surplus of €110M for 2016.

In the case of ENDESA, the credit rating agencies maintained in general its rating during 2016. Only S&P lowered ENDESA's outlook to Stable (from Positive) keeping the rating at BBB. This revision, which took place on 26 February 2016, was mainly justified in terms of the downward revision of the electricity price estimate that the rating agency would make.

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

	31 December 2016 (*)			31 December 2015 (*)		
	Long-term	Short-term	Out-look	Long-term	Short-term	Out-look
Standard & Poor's	BBB	A-2	Stable	BBB	A-2	Positive
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

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

It should be highlighted that ENDESA held a credit rating at 2016 year-end positioned within the "investment grade" category according to all credit agencies. It should also be considered that ENDESA's rating is always limited to those of its parent company, Enel, in accordance with the methodologies used by the rating agencies.

ENDESA is interested in keeping a credit rating at "investment grade" levels in order to efficiently access the financial markets and the banking market products, in addition to obtaining preferential conditions from its main suppliers.

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

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

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

The general principles that govern this policy are transparency, immediacy, constant information, equal treatment, affinity with social interest and legislative compliance.

The Audit and Compliance Committee is the body responsible for supervising the communication strategy and relationship with shareholders and investors, including small and medium-sized investors. In compliance with this policy, the Audit and Compliance Committee presented to the Board of Directors of 19 December the report on Supervision of the Communication Strategy and Relationship with Shareholders and Investors and other Stakeholders of 2016.

The conclusions of this report indicated that ENDESA's communication channels are appropriate and that communication with shareholders and investors and other stakeholders is correct and in accordance with current legislation and the general principles of ENDESA's policy and in accordance with the best corporate governance practices.

In this regard, it should be indicated that ENDESA was the second listed company that received best score in the in the Reporta 2016 report, which analyses the quality of public information from companies listed in the General Index of the Madrid Stock Exchange (IGBM).

2.4.1. Relations with investors

Among the activities performed by the Investor Relations Office in 2016, we can highlight making public presentations to analysts and investors on the Company's quarterly results and its strategic plan.

On 23 November 2016, ENDESA presented to the market an update of its strategic plan for the 2017-2019 period.

ENDESA performed two Non Deal Roadshows. The first was held in March in Europe and the USA, after presenting the 2015 financial results. The second was performed in November after presenting the updated the of 2017-2019 Strategic plan, with the aim of informing the Company's main investors about the update of said plan in depth. In these two

Roadshows, ENDESA visited a total of 11 cities, where it met with 91 investors. Six Reverse Roadshows were also held, where meetings took place with 56 investors in Madrid.

Likewise, ENDESA's Investor Relations Office took part in a total of 14 international conferences in the sector, where it had the opportunity to meet with 155 investors.

Within its daily activity, it should also be highlighted that the Investor Relations Office responded to a total of 779 consultations made by analysts, investors and rating agencies.

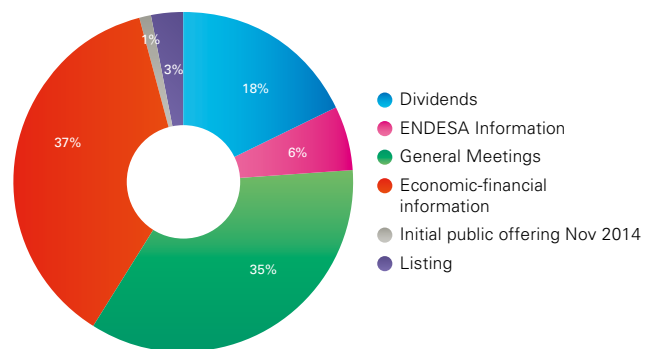
On 26 April, ENDESA held, in its Madrid head office, its Ordinary General Meeting, where all points of the Agenda were met, reaching an attendance quorum of 86.358% of the capital.

2.4.2. Shareholders' Office

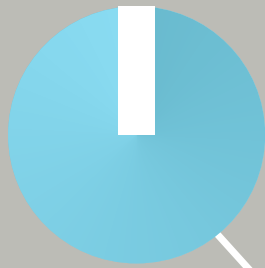
In 2016, it dealt with 1,958 telephone calls and received 88 visits, in addition to performing 1,209 shipments of documentation.

One of the most relevant channels that the Company makes available to its private shareholders is that of "Information for Shareholders and Investors" integrated in its corporate website (www.endesa.com).

Type of information requested from ENDESA's Shareholder Information Office 2016



ENDESA's Chairman in the 2016 General Shareholders' Meeting





Internal control
systems

1. Internal control systems

ENDESA'S Board of Directors has the ultimate responsibility for the existence and maintenance of an adequate and effective internal control system of the Company's financial information and, furthermore, has the indelegable power of supervision of internal information and control systems.

ENDESA has an Audit and Compliance Committee that has the main function of supervising good corporate governance and transparency in all ENDESA's actions in the economic-financial, external audit, compliance and internal audit arenas.

It has been entrusted with supervising the process for preparing and presenting the regulated financial information and supervising the efficiency of ENDESA's internal control system and the risk management systems. It also discusses the significant weakness in the internal control system detected when performing the audit with account auditors or audit companies. Additionally, it is responsible for supervising the internal audit services, guaranteeing their independence and efficacy, and verifying that the senior management considers the conclusions and recommendations of its reports.

The Audit and Compliance Committee members are appointed considering their knowledge and experience in accounting, auditing or risk management. The Company also appointed a Transparency Committee chaired by the CEO and formed by the main executives, including all components of the Executive Management Committee together with other members of the ENDESA management directly related to the preparation, verification and disclosure of financial information.

ENDESA also has a Code of Ethics, approved by the Board of Directors, that states the ethical commitments and responsibilities fulfilled in the performance of business activities and corporate operations by the collaborators of ENDESA and its subsidiaries, whether they are administrators or employees, of any type, in said companies.

The Code of Ethics is formed by:

- > The General Principles governing relations with stakeholders and which define the benchmark values in ENDESA's activities
- > The Criteria of Conduct in relations with each category of stakeholder, which generate the specific guidelines and standards that ENDESA collaborators are required to follow in order to comply with the general principles and prevent the risk of unethical forms of behaviour.
- > The mechanisms of implementation, which describe the organisational structure around the Code of Ethics responsible for supervising correct knowledge, understanding and compliance with it by all employees.

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

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

For its part, the Zero Tolerance to Corruption Plan (approved by the Board of Directors) requires all ENDESA employees to be honest, transparent and fair in the performance of their duties. This same commitment is demanded from all related parties, i.e. the people, groups and institutions that contribute to achieving ENDESA's objectives, or that participate in the activities it performs to achieve them

In compliance with the tenth principle of the Global Compact to which ENDESA has adhered, "Businesses should work against

corruption in all its forms, including extortion and bribery”, ENDESA rejects all forms of corruption, both direct and indirect, and has a program to fight against it. Within this same determination, the Company has a criminal risk prevention model, in force since 1 January 2012, which is a control system with the purpose of preventing or significantly reducing crimes from being committed inside the company, complying with the provisions of the Spanish Criminal Code regarding the criminal responsibility of the corporate body. According to current legislation, having adopted a suitable and efficient prevention mode, the operation and supervision of which have been entrusted to a company body with autonomous powers of initiative and control, could entail exemption from criminal responsibility of the company should a crime be committed.

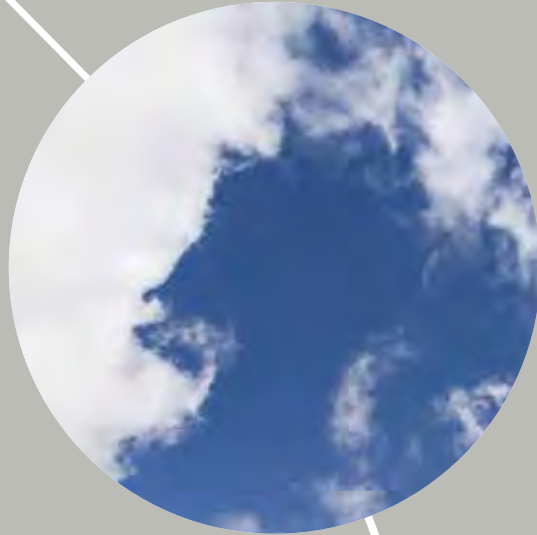
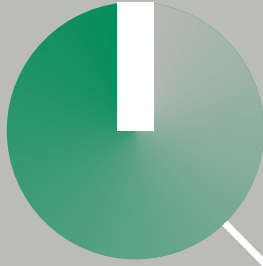
The following protocols that establish generation action criteria in different areas form part of ENDESA’s criminal prevention model:

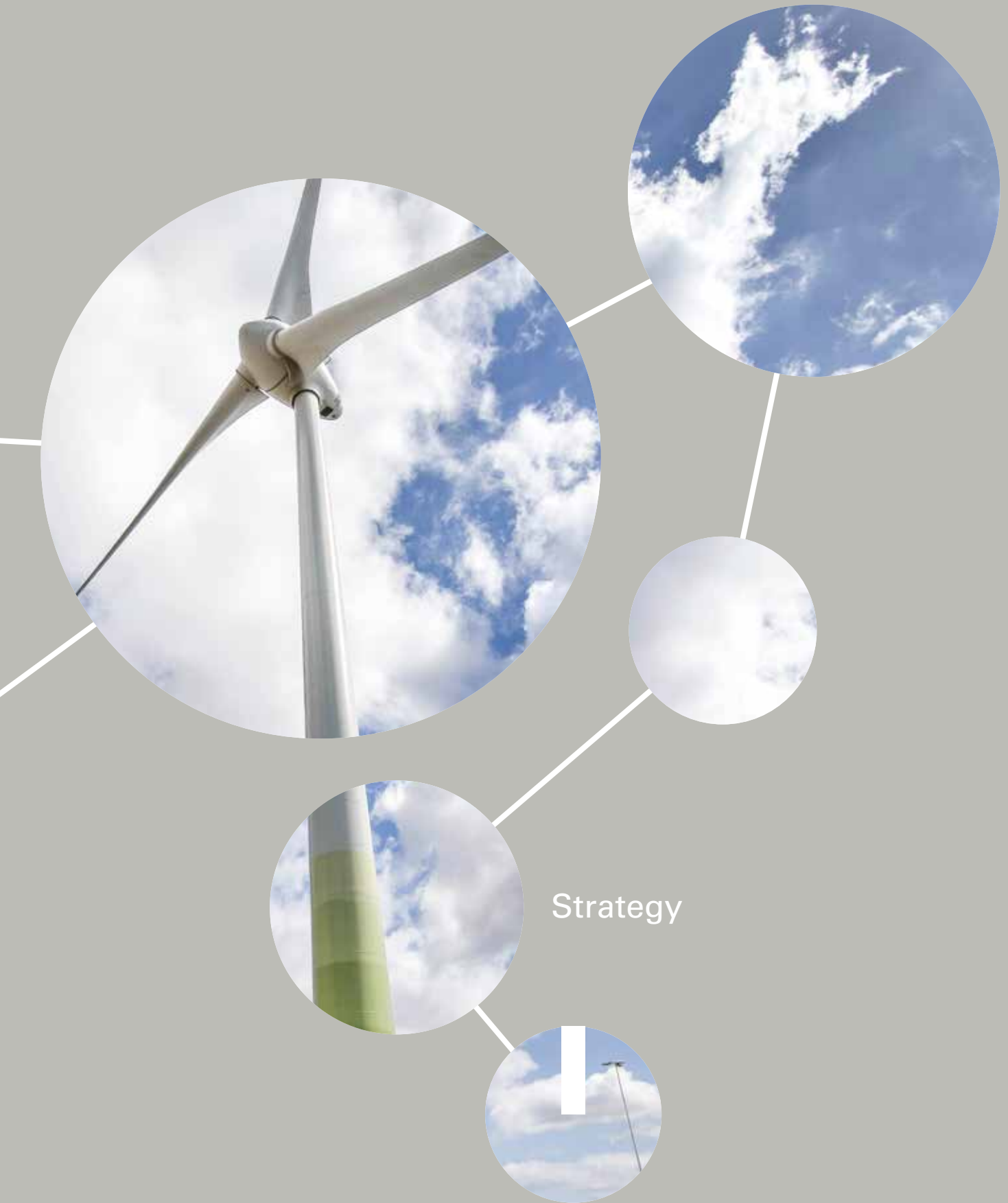
- > Protocol of action in conflicts of interest. Exclusive dedication and commercial presence.
- > Protocol of acceptance and offering of presents, gifts and favours.
- > Protocol of action in dealings with public officials and authorities.

Since 2005, ENDESA has also had an Ethics Channel, that can be accessed from its website and intranet, so that all stakeholders can securely and anonymously inform of any irregular, unethical or illegal conduct that, in their opinion, occurs in ENDESA’s activities. The procedure established for the use of the channel guarantees confidentiality as it is managed by an independent, external company, which handles all complaints or communications.

In addition to the Channel, complaints are received through other channels, always addressed to the Audit Department, in accordance with ENDESA’s internal procedures. The Audit Department is responsible for guaranteeing the correct handling of the complaints received, acting with independent criteria and action with respect to the other organisation units.

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





ENDESA's Industrial Plan

ENDESA advocates an energy paradigm with an efficient and sustainable economic model based on a decarbonised economy in 2050. For said purpose, the key levers and actions to be developed to achieve said decarbonisation objectives are as follows:

> Electrification of the demand

To achieve the objective of decarbonisation of the economy, greenhouse gas emissions from fossil fuels must be totally displaced in 2050. The only alternative for this scenario is promoting mass electrification of the final energy demand, via actions that drive the internalisation of the carbon dioxide emissions rights cost, the development of e-mobility plans and charging infrastructures, backed by an active role of distribution operators, and rationalisation of the electricity tariff to achieve an energy model with efficient cost assignment.

> Emission-free electricity generation

Evolution of the generation facilities towards an efficient emission-free generation mix, based, among other elements, on a national renewable energy plan in line with growth in demand. Hence, conventional nuclear power and efficient thermal generation are considered essential to guarantee a smooth and successful transition in terms of price and supply security, allowing no new investments in fossil fuel generation capacity and the gradual closure of the current facilities.

> Improved energy efficiency

Through the development of an efficiency and electrification plan that promotes incentives to incorporate electrification-associated energy efficiency measures.

> Roll-out of smart grids

By automating and digitising the grid as a key factor in optimising electricity and system operation-related in-

vestments, which will require development of a roll-out plan with associated remunerative framework.

If we consider the described trends, ENDESA's industrial plan is totally aligned with the new challenges and also with the new energy paradigm that will encourage sustainable growth. It shall, therefore, be based on the following strategic pillars:

1. Decarbonisation of ENDESA's electricity generation mix in 2050.
2. Strengthening its position in smart grids in line with expected growth.
3. Focus placed on excellence in customer service.
4. Ongoing commitment to improved efficiency in all businesses.

Additionally, and transversally to the indicated action plans, ENDESA shall use digitisation as main engine for transformation so that it can achieve the goals included in the Strategic Plan.

1. Decarbonisation of ENDESA's electricity generation mix in 2050

ENDESA envisages an ambitious plan of gradually reducing emissions to reach the final goal of zero emissions in 2050. In this context, ENDESA also considers ambitious renewable energy objectives using Enel Green Power España, S.L.U. (EGPE) as an efficient and sustainable renewable energy platform.

The actions foreseen for development of a renewable energies platform envisages making investments to extend the useful life of wind power facilities, the capture of synergies via optimising Enel Green Power España, S.L.U.'s (EGPE) portfolio and using additional opportunities for growth.

Specifically, ENDESA aims to incorporate approximately 300 MW in the coming 3 years, in addition to 1.7 GW incorporated in 2016 after acquiring 60% of Enel Green Power España, S.L.U. (EGPE), and, in the longer term, ENDESA shall also invest in the organic growth of these technologies.

The conventional generation portfolio is considered essential for guaranteeing supply security during the transition period towards decarbonisation of the electricity generation mix, and includes the following key actions and objectives:

- > **Nuclear technology:** guarantee long-term operation of nuclear plants in safe and cost-efficient conditions via ongoing improvement measures.
- > **Coal-fired electricity power plants:** adapt them to the best environmental practices by developing Industrial Emissions Directive (IED) and BREF (Best Available Techniques) investments in the imported coal plants. Investments are not foreseen in domestic coal plants in current market conditions.
- > **Generation facilities in the Non-Mainland Territories (TNP):** preserving security of supply complying with environmental regulations.

2. Strengthening its position in smart grids in line with expected growth

The future expansion of the grid shall be promoted by electrification of demand and integration of renewable energies. ENDESA identifies the following initiative lines to prepare the grid for the future:

- > **Digitisation projects,** mainly focussing on smart meters, which will be fully in place before the regulatory period established for the end of 2018, automation of the grid through installation of remote control devices in order to reduce interruption time, development of technological modernisation projects and communication improvements.
- > **Expansion of the grid** through an investment plan centred on developing and improving its structure.
- > **Modernisation and improvement of the grid** by making other substitution investments.

ENDESA shall also continue working on efficiency improvement initiatives, loss reduction plans and fight against fraud, all with the aim of capturing the maximum value of the current tariff model.

Finally, ENDESA also envisages executing grid innovation projects aimed at developing a wide range of our services (GrowSmarter Project, Flexiciency Project, ZeEUS Project, Mónica Project, La Graciosa Project, among others).

3. Focus placed on excellence in customer service

ENDESA will focus on sustainable leadership and the growth of the retail:

- > **Electricity:** consolidation of the position in the Spanish market, development of sophisticated and flexible products, and growth in Portugal in the Business-to-Consumer (B2C) and Business-to-Business (B2B) segments.
- > **Gas:** strengthening of the current position in Spain through new sales and product channels, and growth in Portugal (Business-to-Consumer (B2C) and Business-to-Business (B2B)) and France Business-to-Business (B2B)).

The following actions are envisaged for this:

- > Using the strength of integrated margin management of the generation business and supply in the deregulated business.
- > Maximising the value of the customer portfolio based on experience and considering the definition of a full range of action plans that allow segmenting and increasing loyalty among the customer base.
- > Promoting the development of digital channels as engine for service quality and a new way of interacting with customers.
- > Growth of the value added services (VAPS) in the global supply business thanks to accumulated experience.
- > Innovation and development of new products as a lever for growth, mainly aimed at e-mobility, distributed generation and smart homes.

4 Ongoing commitment to improved efficiency in all businesses

ENDESA has a strong commitment to the ongoing search for efficiency and develops plans in all its businesses focusing on cost reduction:

- > In Generation, unitary cost reduction shall be achieved via developing exchange and ongoing improvement practices of all technologies, renegotiation of operation and maintenance contracts, optimisation of fuel management and achievement of efficiency by applying digital plans to the asset base. In the specific case of renewable energies, cost synergies are foreseen thanks to the

integration of control centres, tender unification and dispatch systems, among others.

- > In Distribution, optimisation of staff, equipment and convergence systems and investments in technology and digitisation aimed at efficiency shall allow cost reduction to be achieved.
- > In Resale, cost improvement will be tackled with review of the main processes and providing digitisation initiatives.

In this regard, ENDESA's digitisation plan shall act as main lever of the Business Lines' efficiency plans:

- > In Generation, by digital transformation of the industrial assets for their maintenance, security and operation.
- > In Distribution, through the full application of the smart meters, grid automation, implementation of remote control devices and technological innovation.
- > In Resale, by using digital platforms to interact with the customer and benefits provided by digitisation in terms of efficiency improvements, service quality and developing new channels and services.

Finally, all the objectives described in ENDESA's Strategic Plan are fully aligned with the new energy paradigm and the sustainable development commitments incorporated in its Sustainability Plan:

- > Decarbonisation of the energy mix in 2050 by developing an emissions reduction plan and strengthening the position of renewable energies.
- > Driving grid and customer digitisation by developing solutions aimed at promoting automation, supply quality, electrification and energy efficiency of the demand.
- > Collaboration with the public authorities in access to electricity in vulnerable customers.
- > Commitment to education and socio-economic development, mainly through the role of ENDESA Foundation.

Main financial indicators 2017-2019

The Industrial Plan approved by the ENDESA, S.A.'s Board of Directors on 7 November 2016 envisages an investment target, net of subsidies and assets assigned by customers, of 4.7 thousand million euros in the 2016-2019 period, distributed, by type, in maintenance (56%) and growth (44%) investments.

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

- > Generation (53%), with investments in the Mainland (30%), in the Non-Mainland Territories (12%) and in renewable energies (11%). The Mainland investments fundamentally include recurring maintenance investments and selective environmental investments in the imported coal plants aimed at compliance with EU emissions legislation. Maintenance investments are anticipated for the Non-Mainland Territories, plus environmental and selective capacity replacements. The renewable energy investments shall be focussed on developing new capacity.
- > Distribution (38%), with investments in maintenance and growth aimed at implementing smart meters, in ad-

dition to development of the Quality Plan to increase grid automation levels.

- > Resale (9%), with investments aimed at developing the aforementioned projects.

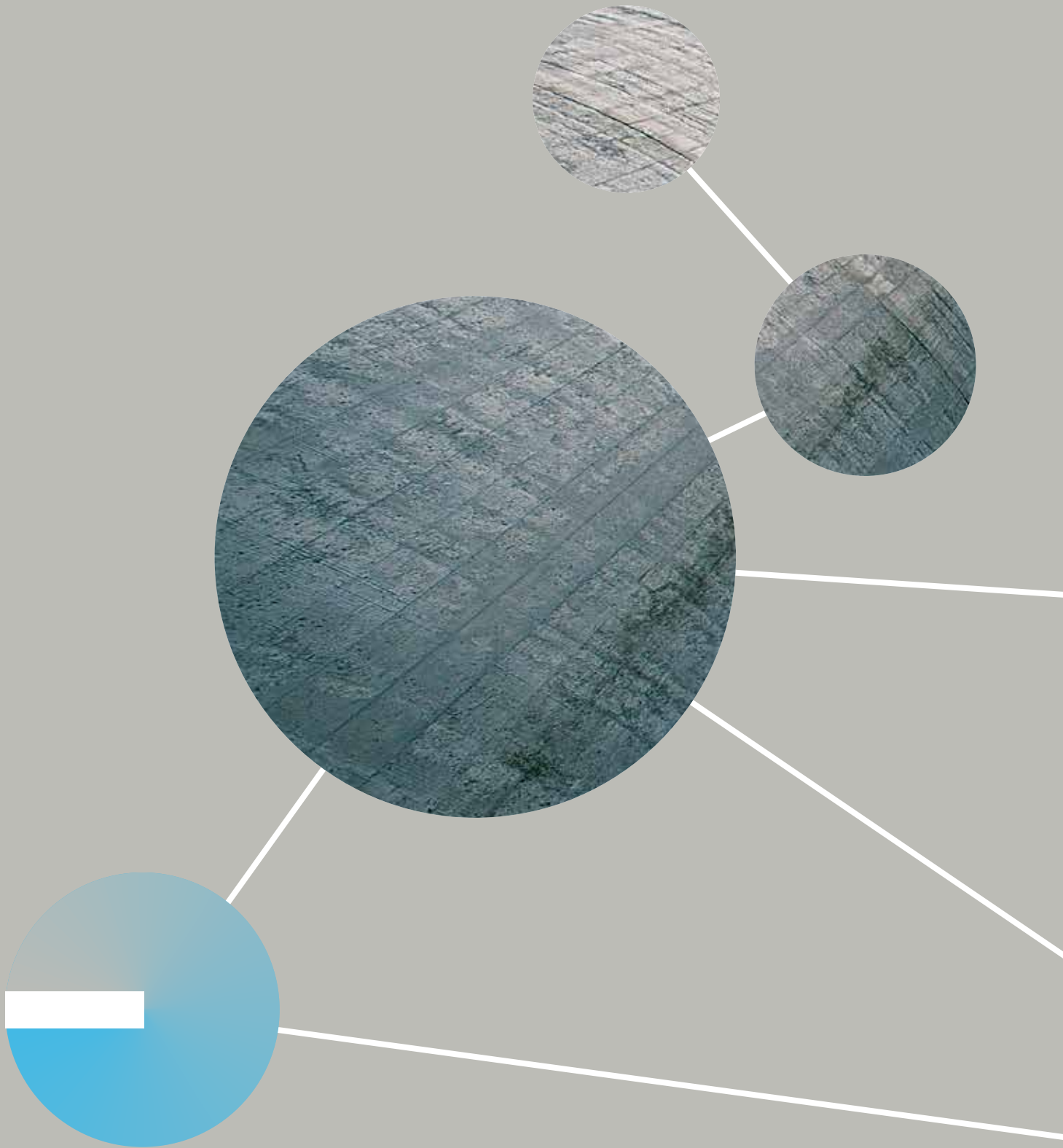
Additionally, ENDESA shall assess selective opportunities for inorganic investment in renewable energy in Spain and in distribution concessions in Portugal, plus potential portfolio acquisitions of gas and electricity customers, in the Value Added Products and Services business (VAPS).

Based on the strategic pillars described in the previous paragraphs, and considering the estimates of economic, market and regulatory indicators in the coming years, ENDESA has prepared a business plan that includes, among other parameters, forecasts on economic indicators of the Group's consolidated results. As per this, ENDESA expects a positive evolution of the EBITDA from 3.4 thousand million euros in financial year 2016 to 3.7 thousand million euros in 2019.

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

High voltage power line







Business

1. Business in Spain and Portugal

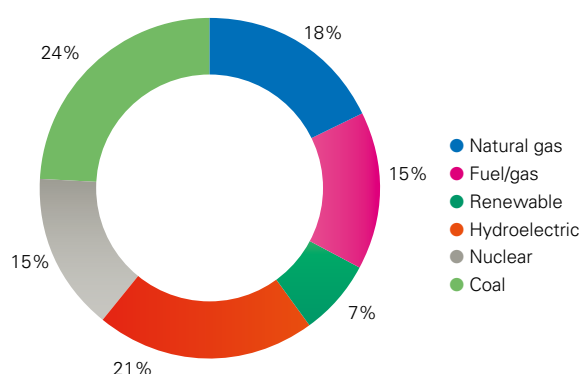
1.1. Business in Spain

1.1.1. Electricity generation

On 27 July 2016, ENDESA Generación S.A., a company fully controlled by ENDESA S.A. acquired 60% of the share capital of Enel Green Power España S.L., a company of which it already held 40% of its capital, for a total price of 1,207 million euros, by means of signing a sale agreement of company shares with the company of the same business group Enel Green Power International B.V.

ENDESA's total installed capacity in Spain at 2016 year-end came to 22,836 MW. From this amount 16,078 MW are in the mainland electricity system, 5,084 MW in the non-mainland systems, i.e. Balearic Islands, Canary Islands, Ceuta and Melilla and 1,675 MW to renewable energy (Enel Green Power España S.L.U.).

Structure of ENDESA's installed capacity in Spain on 31/12/2016



During 2016, electricity demand in the Iberian Peninsula grew by 0.6% with respect to the previous year (corrected for the industrial activity and temperature effect, the demand remained stable with respect to 2015). Mainland gen-

eration dropped 2.1% compared with 2015. Coal production fell 31.8%, whilst hydroelectric production increased 25.1%. For international exchanges, imports exceeded exports by 7,313 GWh: this is the first importer balance recorded since 2003. (Source: REE Report: "Advance of the Spanish electricity system 2016").

In this scenario, ENDESA's generation network in Spain achieved in 2016 a total production of 68,690 GWh, 5.2% less than the previous year, of which 54,844 GWh correspond to Mainland generation under the ordinary regime, 8.7% lower than in 2015, 12,634 GWh to generation under the ordinary regime in non-mainland electricity systems, an increase of 2.1%, and 1,212 GWh correspond to renewable energy produced since ENDESA S.A.'s total acquisition of Enel Green Power España S.L.U., on 27 July 2016 (3,704 GWh during 2016).

Mainland production under ordinary regime had lower contribution with respect to the previous year, of domestic coal (-24.4%) and imported coal (-20.0%). Combined Cycle production fell 5.7%, whilst hydroelectric and nuclear power have stayed at the previous year level.

ENDESA's electricity production in Spain in busbars (GWh)

	2016	2015	% Var.	% s/ Total
Hydroelectric	7,173	7,176	0.0	10.4
Nuclear	25,921	25,756	0.6	37.7
Domestic coal	6,793	8,984	-24.4	9.9
Imported coal	12,240	15,293	-20.0	17.8
Combined cycle	2,717	2,881	-5.7	4.0
Total mainland	54,844	60,090	-8.7	79.8
Non-mainland	12,634	12,375	2.1	18.4
Renewables and Cogeneration ¹	1,212	—	—	1.8
Total	68,690	72,465	-5.2	100.0

¹ In financial year 2016, it corresponds to the power generated by ENEL Green Power España S.L.U. (EGPE) from the date of its takeover, 27 July 2016.

1.1.2. New facilities and operating improvements

The main electrical infrastructures projects commenced, developed or completed during 2016 in Spain were the following:

Mainland system

- > Development of the assembly work to install NO_x and SO₂ emissions reduction systems in the two units of the Litoral Thermal power plant (Almería). Commissioning of the systems corresponding to Unit 2.
- > Development of the engineering and launch of the project to install NO_x and SO₂ emission reduction systems in 4 Units of the Puentes Thermal Power plant (La Coruña).
- > Development of the construction works of the second phase of the ash landfill and the new leachate pumping system of the Puentes Thermal Power Plant (La Coruña).
- > Installation and commissioning of a new ash humidification system in the Puentes Thermal Power Plant (La Coruña).
- > Implementation of primary measures in Unit 2 of the Puentes Thermal Power Plant (La Coruña) by means of the installing Over Fire Air (OFA) systems to optimise combustion in terms of emissions, achieving values close to IED limits, which will allow, by installation of non-catalytic NO_x reduction systems, compliance with emission limits with values below IED.
- > Sequential implementation of modifications in the coal mills in the Andorra Thermal Power Plant (Teruel), which allow expanding the use of new coals, additionally improving Unit efficiency and availability.

- > Start of the modernisation, life extension and environmental improvement plan of the Ribarroja Hydroelectric Power plant, to be executed in the 2016-2021 period.
- > Pumping plants: continuation of Pumping unit reliability program.
- > Continuation of the decommissioning work of the Sant Adrià de Besòs and Badalona thermal power plants. Activities related to soil treatment and decontamination phase.
- > Execution of the engineering of the decommissioning project of the Foix power plant and its launch to start the work at the start of 2017.
- > Evaluation, development and implementation of life extending activities in main equipment and systems of the Litoral Thermal Power Plant (Almería).
- > Start of the control system modernisation of Units 3 and 4 of the Alcudia Thermal Power Plant (Majorca).

Non-mainland system

- > Implementation of Phase 1 and start of Phase 2 of the project to improve non-mainland generation, developing and executing 580 actions in mechanical and electrical equipment, lines and protections, control systems, maintenance and training plans in isolated grids and with generation solely dependent on the power plant.
- > Execution of the works for the partial closure of the ash landfill of the Alcudia Thermal Power plant (Majorca).
- > Development and implementation of the control room unification project of the Son Reus and Ca's Tresorer combined cycle power plants, with said unification being fully operational in 2016.

- > Development and sequential implementation of zero-output simulators in Ceuta, Melilla, Salinas and Punta Grande, with regular training procedures of the operation and maintenance staff to exit zero electricity conditions quickly and reliably.
- > Finalisation of the remaining life study and start of the repair process of the GE gas turbine rotor, Frame 6B, taken out of service due to a crack in the rotor and consumed life in accordance with the manufacturer's standards.
- > Evaluation and start of emission abatement improvement activities in the Punta Grande Power plant.

1.1.3. Mining

ENDESA's coal mining activity in Spain takes place in four mining centres: As Pontes (La Coruña) and Andorra (Teruel) belonging to ENDESA Generación and Puertollano (Ciudad Real) and Peñarroya (Cordoba) via the company ENCASUR. In 2016, no mining activities have taken place since no mining centre has mining activity, all being in restoration phase, pending or with approved authorisation of administrative closure approved in this financial year.

Since 2014, coinciding with the finalisation in 2014 of the validity period of Spanish Royal Decree 134/2010 on restrictions to guarantee supply where the quantities of coal to purchase were fixed by decision of the Secretary of State for Energy, sales of the mining industry to our electricity customers sharply fell, even, as in the case of Encasur, having no sales in 2015.

With this situation, and with lack of future prospects by our customers that made it possible to foresee a certain coal demand, ENDESA definitively stopped coal mining activity in the only mine operating, Emma mine (Encasur), informing the competent Administration of its closure on 31 December 2015. This closure is set out in the "Closure Plan for the Kingdom of Spain," that the Puertollano Production Unit forms part of. This finalisation of activity is two years in advance of the activity which, in other more favourable conditions, should have been performed before 31 December 2018.

During 2016, and despite the low coal demand in the industry, Encasur supplied 140,000 tons of coal to the Puente Nuevo thermal power plant, equivalent to 470 million thermal units of lower calorific value, from the stock in the facilities of Puertollano mine. These sales took place based on the supply contract signed by Encasur with Viesgo Generación in the month of January.

Due to the situation described, 2016 activity in Puertollano mine has focussed on restoration works, mainly in the area of slopes, and in managing coal shipments included under the supply agreement with Viesgo Generación.

After 1 January 2017, Puertollano mine shall not continue with restoration work, stock management and execution of the end of activity plan, as with the other mines of Encasur and ENDESA, until achieving the mandatory stoppage of work authorisation.

In 2016, the Andorra mining centre has obtained stoppage of work (administrative closure) of the "Corta Gargallo Oeste" mine, last operating mine in this mining centre, the mining activity completely ceasing. Furthermore, in the mining centre of Peñarroya, maintenance and environmental supervision work continued in "Corta Ballesta Este" mine, where restoration and decommissioning of facilities has been taking place.

With respect to Puentes mining centre, the administrative closure of the mine has continued to be processed. The work included in the End of Activity Plan were performed and it went ahead, as in 2015, with the decommissioning of old mining equipment and removal of the remaining materials from the mining facilities.

1.1.4. Regulated market

ENDESA distributes electricity in 27 Spanish provinces in ten autonomous communities –Catalonia, Andalusia, Balearic Islands, Canary Islands, Aragon, Extremadura, Castile and Leon, Navarre, the Valencian Community and Galicia– covering a total area of 194,687 km² and a population close to 22 million inhabitants.

The number of customers with access contracts to the Company's distribution grids increased during 2016 to 0.12%, reaching 12,314,392 customers.

ENDESA has supplied 102,901 GWh in 2016 to customers of its distribution grids, 1.6% more than in 2015.

The total energy distributed by ENDESA's grids has been 115,602 GWh in 2016, measured in power plant busbars, which represents 44% of the total demand in Spain. The latter was 265,317 GWh¹, according to the Spanish electricity system operator.

1.4.1.1. Development of distribution infrastructures

The length of the lines of ENDESA's distribution grid in Spain was 316,562 kilometres, of which 39.5% were underground lines. At financial year-end, there were 1,240 substations.

Together with development of these infrastructures, numerous actions were performed aimed at improving supply quality, such as maintenance work, the upgrading of facilities or an increase in the degree of automation of the

HV and MV grids. Regarding automation, during 2016, the Company's Medium Voltage Automation Plan has continued to be implemented, with a total of 33,620 remotely controlled elements.

Other actions focussed on reducing the environmental impact of the grids and developing different specific plans agreed with the Administrations.

Throughout 2016, ENDESA Distribución increased the remote management meter installation rate with a total of 2.4 million replacements in the year, reaching 9.2 million remote control meters installed. This is 79% of ENDESA's meter stock with contract demand up to 15 kW. With this, ENDESA has exceeded the legal obligation of smart meter installation, which establishes that by 31 December 2016 companies must have 70% smart meters installed.

The installation of concentrators also increased, with an activity of more than 43,000 installations in the year, until reaching the figure of more than 120,000 concentrators installed in the Transformation Centres-Transformers. This allows immediacy in integrating equipment in the remote management system with their consequent remote operation.

Electricity distribution facilities in Spain and Portugal

	2013	2014	2015	2016	% variation 2015-2016
High-voltage overhead lines (km)	18,821	18,849	18,728	18,774	0.25
High-voltage underground lines (km)	745	748	751	765	1.86
Medium-voltage overhead lines (km)	77,597	77,554	77,567	77,190	-0.49
Medium-voltage underground lines (km)	39,946	40,324	40,869	40,442	-1.04
Low-voltage overhead lines (km)	97,026	94,909	95,763	95,609	-0.16
Low-voltage underground lines (km)	89,498	82,145	83,997	83,782	-0.26
Substations (number)	1,244	1,240	1,237	1,240	0.24
Substations (MVA)	84,890	85,783	85,854	86,324	0.55
Transformer centres (number)	131,491	131,636	132,307	132,771	0.35

¹ REE Report: "Advance of the report on the Spanish Electricity System 2016".

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

1.4.2.1. Continuity of supply

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

During 2016, the SAIDI in the markets supplied by ENDESA in Spain was 45 minutes, 4 minutes less than the 2015 value. Service reliability has been 99.99% of hours throughout the year. The own NIEPI in 2016 was 1.2, a one tenth increase from the previous year.

The following chart shows the supply continuity indicators of the main autonomous communities where ENDESA operates.

System average interruption duration index (SAIDI) of ENDESA in Spain (minutes)

Own SAIDI	2014	2015	2016	Variation 2015-2016
Andalusia	51	55	53	-5
Aragon	57	61	53	-13
Balearic Islands	32	36	39	8
Canary Islands	32	30	27	-9
Catalonia	50	44	40	-9
Extremadura	48	53	42	-20
ENDESA	49	49	45	-8

> Mainland. A considerable improvement of the SAIDI was observed in all regions. In Andalusia it was 53 minutes, in Aragon 53 minutes, in Catalonia 40 minutes and in Extremadura 42 minutes. With respect to 2015, Extremadura stands out with a 20% reduction, whilst Aragon improved 13%, Catalonia 9% and Andalusia 5%.

> Islands. In the case of the Canary Islands the SAIDI was 27 minutes, a 9% improvement with respect to 2015. Whilst in the Balearic Islands it was 39 minutes, the only region with an increase compared to the previous year, due to adverse weather events with storms in the last quarter of the year.

1.1.5. Deregulated market

In 2016, ENDESA supplied deregulated electricity market customers with 83.5 TWh, to more than 10.8 supply points, reaching a 35.3% share in terms of energy and staying as absolute leader of the sector. The average sale share of the Company in the areas not covered by its distribution grid was higher than 24%.

1.1.5.1. Operational excellence and customer service excellence

In 2016, among other things, the ENDESA Customer Service Excellence Plan focussed its activities on multilingual service and preventive management of dissatisfaction in the telephone channel, evolution of the website: www.endesa-clientes.com, implementation of improvements in the billing process in addition to optimisation, updating and enriching the information.

The most significant results of the plan in 2016 include: the improvement of over 5 points in the satisfaction percentage of mass market customers with the telephone service, 13% increase in the number of contracts registered in the electronic invoicing service (e-bill), the almost 7% increase in the perception of a bill without mistakes in mass market customers and a 11% reduction in waiting time in service points and commercial offices.

1.1.6. ENDESA's Customer Ombudsman

ENDESA's Customer Ombudsman, the only one in the Spanish electricity market, works independently from the Company's management teams and was appointed to provide customers with an additional means of dialogue in connection with the services provided by ENDESA in the market, listening to in-house and external representatives and proposing to the Company recommendations for ascertaining customers' needs and expectations and methods to improve service quality.

José Luis Oller Ariño has been ENDESA's Customer Ombudsman since 2005.

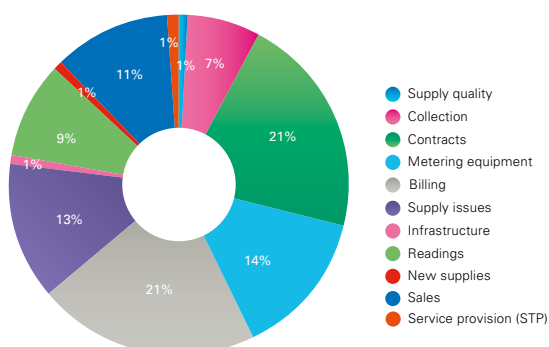
Complaints handled

ENDESA's Customer Ombudsman received 1,408 complaints within the scope of his activity in 2016, 3% more than the same period of the previous year.

By type, most complaints concerned the commercial cycle of contracting, billing and collection. Of these, those related to sales and contracting have undergone greatest growth in 2016 and come to 32% of all cases.

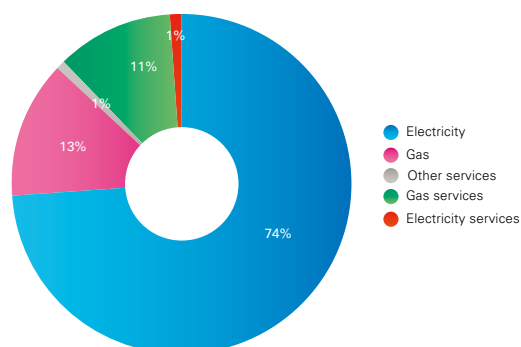
Complaints concerning metering equipment and meter reading reduced slightly with respect to 2015, representing 21% of the complaints received. The same has occurred due to claims received for supply incidents, which involve 13% of cases.

Types of complaints

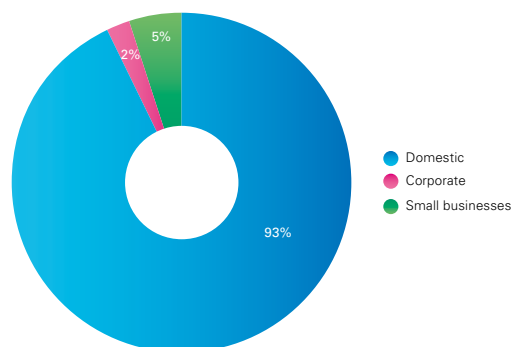


Most complaints received correspond to electricity supply and domestic customers

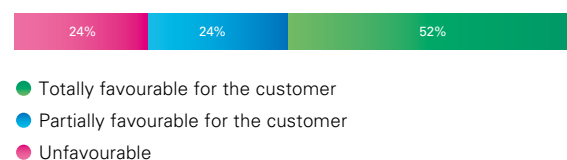
Services



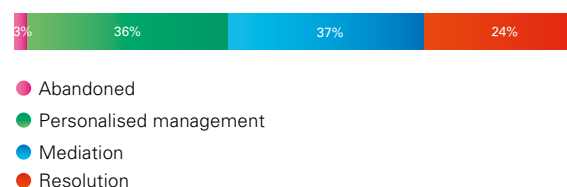
Types of Customers



Resolutions



76% of the complaints processed have been resolved with totally or partially favourable result for the customer.



Most complaints have been resolved via mediation between the customers and ENDESA (37%) or via a personalised on-line management process (36%). Only in 24% of the cases has understanding not been possible between the custom-

ers and ENDESA and it has been necessary for the Ombudsman to issue to final decision.

Likewise, the average time to resolve complaints was reduced to 53 days.

Perceived quality

Overall customer satisfaction with ENDESA's Ombudsman increased slightly to 754. The large majority of customers stated that they were satisfied or very satisfied with the service.

The treatment and the information received from the Ombudsman were the most highly-valued aspects. Customers also appreciated the assurance transmitted by the Ombudsman and most stated that they would recommend the service to other customers.

Other activities

In 2016, the Ombudsman issued 15 notifications of dysfunction with specific cases wherein the analysis of the Ombudsman Office has detected an error or dysfunction which it seeks to correct in relation to the Company's different procedures or actions.

The notifications issued have been particularly related to the contract, billing and complaint management due to supply issue processes. In all cases, the notifications have been accompanied with proposals for improvement of the affected processes.

Likewise, the Ombudsman issued a recommendation related to repairing errors that cause the disconnection or undue cancellation of supplies to customers.

1.1.7. ENDESA in the wholesale markets

1.1.7.1. The Spanish wholesale electricity market

During 2016, the energy allocated in Spain for sales to electricity market end-customers through distributors and

resellers, to exports and coverage of the own system consumptions (losses in the network, auxiliary consumption of the plants and pumped consumptions) was 250 TWh in the Mainland. Pumped consumptions, export balance and Mainland-Balearic Islands link amounted to 1.2 TWh in the year when combined.

Demand coverage was covered 61% by the ordinary regime, 36% by renewable energies and 3% with the importer balance of international exchanges.

During 2016, it is estimated that a volume of 213 TWh has been traded in the forward markets, 26% more than in 2015. Of the total volume traded, 27 TWh correspond to Organised Market transactions (Continuous Trading of OMIP and EEX). Of the remaining 186 TWh (volume traded in OTC), 125 TWh have been recorded in compensation chamber (36 TWh in OMIPClear, 24 TWh in MEFFPower and 64 TWh in EEX). In 2016, this closed volume percentage in compensation (both continuous market and clearing) has grown with respect to the previous year, going from 53% to 71%.

Of the 213 TWh of 2016, ENDESA traded a total of 34 TWh.

1.1.7.2. Evolution of the prices in the wholesale market

In 2016, the arithmetic mean of the day-ahead market was 39.66 euros/MWh, compared with 50.32 euros/MWh of the previous year (-21%). The average weighted prices were 40.82 euros/MWh in 2016 and 51.75 euros/MWh in 2015.

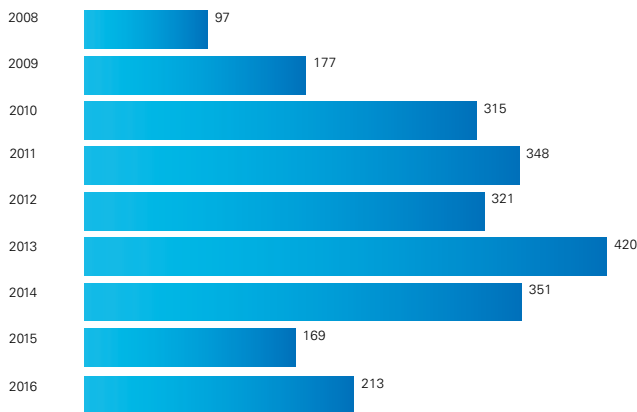
Since in 2016 revenue from the generators for downstream markets added 4.0 euros/MWh to the price of day-ahead market and the capacity payments 1.36 euros/MWh, the price at the end of the financial year was 46.2 euros/MWh.

1.1.7.3. Average daily price

The arithmetic mean of the day-ahead market price in Spain in 2016 was 39.66 euros/MWh, 21% less than 2015 (50.32 euros/MWh), mainly due to a decrease in thermal

gap of the MIBEL which has taken place, especially in the first months of the year. The thermal gap is the energy which must be supplied by conventional thermal power plants, and it has a very significant influence on market prices since these technologies traditionally set the market price.

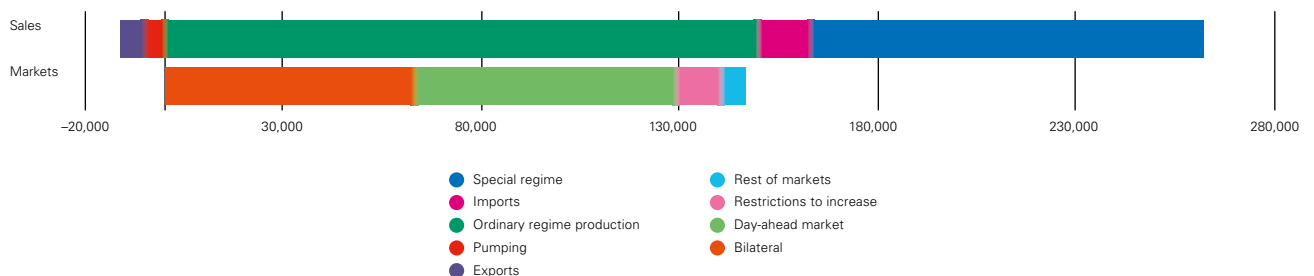
Volume traded in forward markets. Spain (TWh)



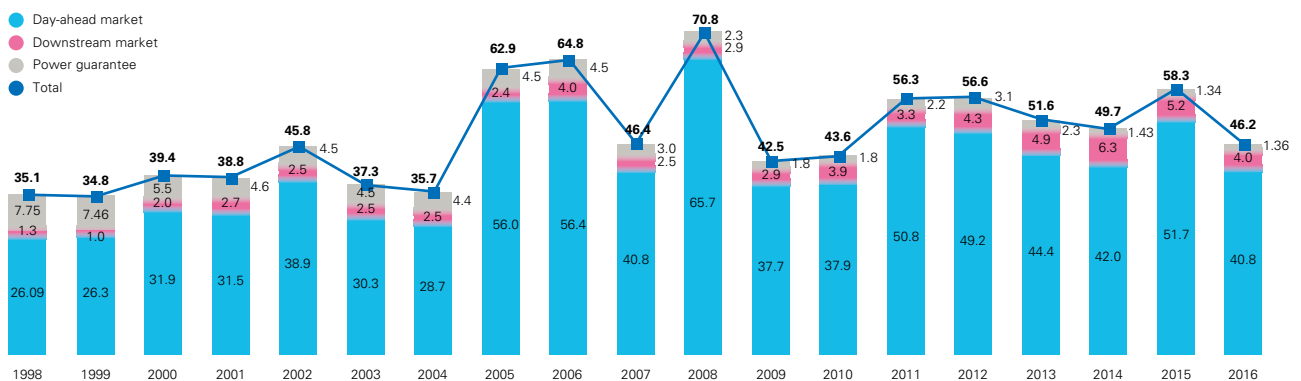
The thermal gap in the MIBEL in 2016 was in the order of 80 TWh, 16% lower than 2015 (95 TWh), mainly due to the increase in wind and hydroelectric production. The year can be divided into three periods of very different markets with two transition months between periods:

- > January-May period: accumulated average price of €28.38/MWh in months with very low thermal gap due to high wind and/or hydroelectric production depending on the month.
- > July-August period: prices around €41/MWh, normal thermal gap and very moderate gas price.
- > October-December period: average price of €56.49/MWh, with very high thermal gaps (50-60 % above the norm due to low wind and hydroelectric production), very low imports from France due to outage of several nuclear plants in that country, an increase in energy commodity prices and depreciation of the euro.

Sales and purchases in the Mainland system (GWh)

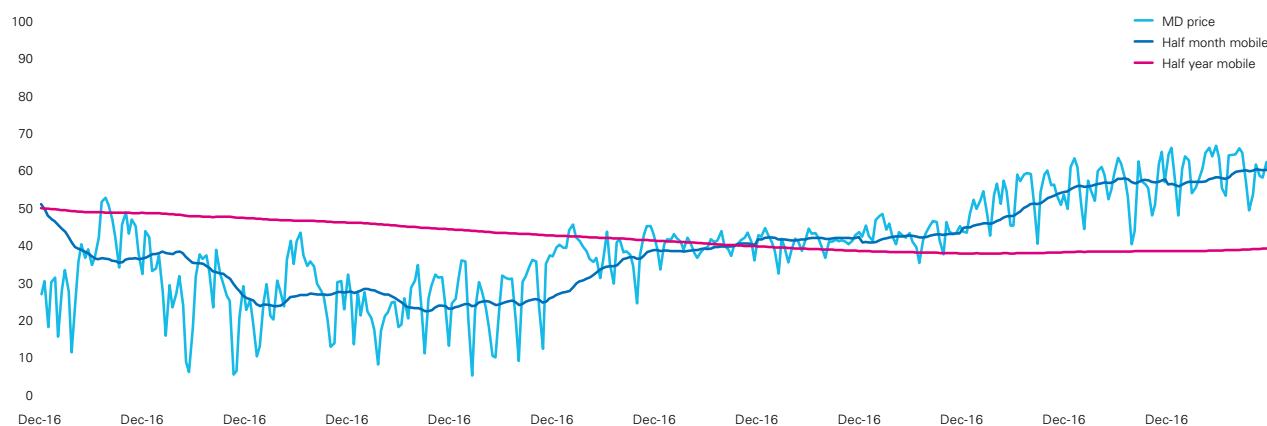


Price composition (euro/MWh)



Note: For calculation of the graph units, the revenues of the rest of the markets and power guarantee have been calculated proportional to the energy contracted in OMEL in the day-ahead market.
Net unit revenues of the generation units calculated over contracted energy without including pumping purchases.

Daily evolution of MD price in OMEL

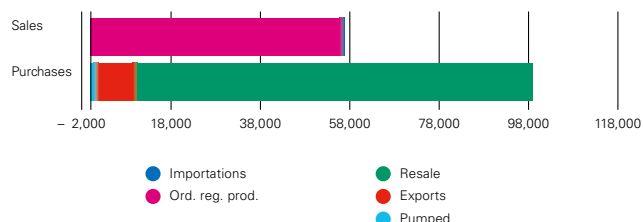


1.1.7.4. Purchases and sales in the wholesale market

In 2016, ENDESA sold 56,089 GWh in the wholesale market, 34% of the total offer of the ordinary regime and imports.

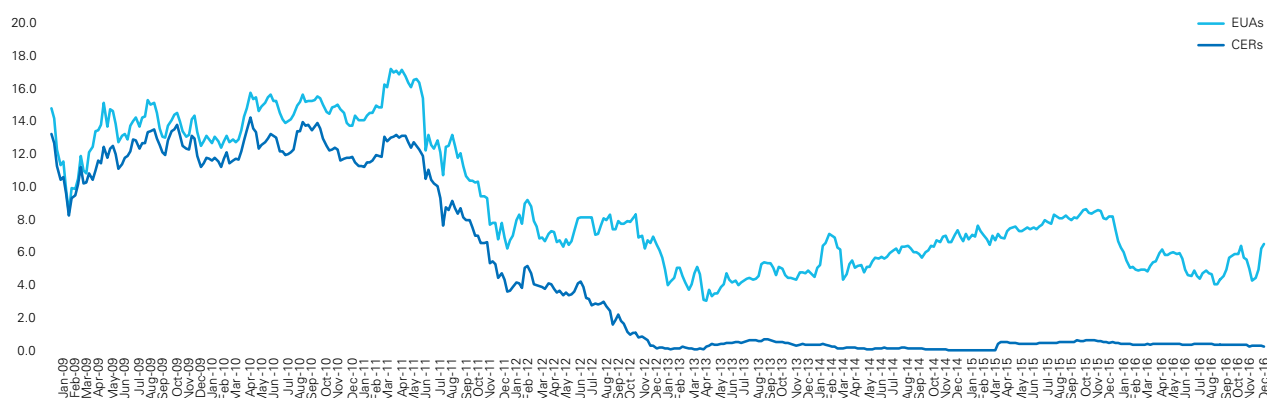
Close to 54% of the total Company sales were made by bilateral contracts and the remaining 46% were sold in the OMEL and REE organised markets.

Sales and purchases of ENDESA (GWh)



For energy purchases, ENDESA purchased 98,911 GWh in the wholesale market, of which 90% are allocated to resale and the rest to pumped and exports.

Evolution of the emission rights listing



1.1.7.5. CO₂ Market: compliance with ETS commitments

2016 has been a very volatile year in which the CO₂ market, clearly influenced by news on occasions external and outside the market, has suffered great variations if we compare it to 2015.

In 2016, CO₂ prices in the spot market ranged from 3.87 euros/t to 8.33 euros/t, closing the year at 6.54 euros/t. Several events led to said volatility, some of the most important are stated below :

- > On the one hand, the cooling down of the market after the not-so-binding as expected Paris COP. Since January 2016, the market began to deflate attempting small corrections with the information on the crude limitation but showing increasing fragility to any recovery attempt.

- > Brexit in the UK meant a further drop for the emissions market, fuelled by uncertainty and the possible repercussions on European environmental policy.
- > The Marrakech COP, where the US elections were at the forefront as was uncertainty about the new US environmental policy.

Focussing on the COP 22 held in Marrakech from 7-18 November 2016, Patricia Espinosa, executive secretary of the United Nations Framework Convention on Climate Change (UNFCCC), said: "The historic Paris Agreement establishes the course and destiny for climate action. Here in Marrakech, the Governments have stressed that this change is now urgent, irreversible and unstoppable."

As results and key initiatives of the agreement we would underline the following:

- > The Governments have set 2018 as deadline to complete the application rules for the Paris Agreement with the aim of guaranteeing trust, cooperation and its success in the future.
- > The Global Environment Facility (GEF), announced the Capacity Building Initiative for Transparency backed by 11 donors from developed countries that will provide funding of \$50M. This is in line with the aim of creating a supervision, verification and report submission system of the actions agreed during the Paris COP.
- > Packages of thousands of millions of dollars in support for clean technologies, the creation of capacity to inform of climate action plans and initiatives to support food security and development of water resources in developing countries.

1.1.7. Fuel procurement

2016 was mainly characterised by a decrease in thermal gap of the MIBEL, especially in the first months of the year, mainly due to the increase in wind and hydroelectric production.

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

Fuel supplies to ENDESA, including own production

	Total 2016	Total 2015
Domestic coal (kt)	1,134	2,459
Imported coal (kt)	8,870	12,254
Petroleum coke (kt)	862	777
Liquid fuel (kt)	2,210	2,070
Natural gas cycles (bcm)	1.0	1.0
Natural gas resale (bcm)	6.7	6.2

Note: Includes non-mainland

ENDESA contracted 10 million tons of coal in the financial year, 33% less than in 2015. In liquid fuels, it managed 2.2 million tons, an increase of 6.7% compared to 2015 due to greater electricity demand of the non-mainland systems.

The gas volume managed for own consumption was 1 bcm, 43.6% more than 2015, and the volume managed for resale was 6.7 bcm.

The volume of coal contracted for supply to third parties amounted to 1 million tons, lower than the previous year.

1.1.8. Risk management in the electricity business

The results of ENDESA's deregulated business are subjected to various risk factors: movements of commodities price (electricity, gas, coal, CO₂ emission rights) and Euro/dollar exchange rate (market risk), due to potential breaches of the counterparts (credit risk) or due to regulation and others associated with business operation (operating risk).

The market coverage strategy applied in 2016, as in previous years, considered the commercial sales activity, in which ENDESA sold electricity volumes higher than its own production. This strategy combined dynamic coverages for the thermal generation assets which minimised the risk and captured the optional value thereof, together with the energy purchase programs in the wholesale markets to cover

the positions resulting from electricity sale. These strategies manage risk by actions in the forward markets of the different commodities.

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

As regards the CO₂ emission rights markets, the finalisation of the PNA in 2012 and the reduction of the MDL projects value entails management of ENDESA's exposure to these rights to a management similar to other commodities.

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

1.2. Activities in the Portuguese electricity industry

The presence of ENDESA in the Portuguese electricity system is mainly concentrated on generation and supply of electricity in the deregulated market.

1.2.1. Generation

The assets controlled by ENDESA in 2016 combine an installed power of 1,483 MW distributed through its holdings in Tejo Energía (628 MW) and Elecgas (855 MW).

ENDESA holds 43.75% of Tejo Energía, proprietor of the coal thermal power plant, and 50% of Elecgas, proprietor of the gas thermal power plant, both established in Pego. In turn, ENDESA owns 100% of the energy produced by Elecgas via the Tolling contract in force between both parties.

Pego's coal and gas power plants generated 3,629 GWh and 1,141 GWh respectively (2,729 GWh corresponding to ENDESA's stake), which gave a share of 9.7% of Portugal's total electricity consumption.

Pego's coal and combined cycle power plant is maintained by Pegop, a company controlled 50% by ENDESA. It also

holds 50% control of Carbopego, a company which purchases coal for the power plant.

Furthermore, ENDESA received 11.6 million euros as a dividend, from all the controlled companies in Portugal, during 2016.

1.2.2. Deregulated market resale

The deregulation process continued advancing in Portugal in 2016 in the Large Customers (Medium Voltage) and Companies (Special Low Voltage) segments. The energy supplied in the deregulated market was 90% of the total consumption of the neighbouring country.

ENDESA remains second operator in the Portuguese deregulated electricity market, with a share of almost 17%. At year-end, ENDESA supplied 6.9 TWh to more than 173,000 supply points.

Aside from the significant upturn in electricity resale, in the Portuguese gas market, ENDESA supplied end customers with 3.7 TWh, 36% more than in 2015. Additionally, ENDESA continues committing to the sale of Value Added Products and Services.

1.3. Natural gas business in Spain

1.3.1. The Spanish natural gas market

Natural gas consumption in Spain was 321.4 TWh, a 2.1% increase compared with 2015. Excluding sales for electricity generation (18.6% of the total), the conventional demand of end-customers increased by 3.3% in comparison with 2015.

1.3.2. ENDESA in the Spanish natural gas market

1.3.2.1. Gas resale

The total volume of gas sold by ENDESA in Spain in 2016 was 61 TWh, 2.0% more than in 2015. Without including the electricity generation power plant consumption, the gas sold increased 3.5% compared to the previous financial year.

1.3.2.2. Conventional market

ENDESA's customer portfolio in the conventional natural gas market on 31 December 2016, excluding sales for electric-

ity generation, was formed by more than 1.5 million supply points, with consumption of almost 50 TWh/year.

ENDESA is the second gas reseller in Spain with an overall share of almost 17% in the conventional market

1.3.2.3. Electricity generation market

The sales of natural gas to electricity generation power plants was 11.5 TWh in 2016, 3.7% less than 2015.

1.3.2.4. International market

The sale of natural gas in France, Portugal, Netherlands and Germany reached a volume of 19.5 TWh, 30.5% more than in 2015.



Cas Tresorer Combined Cycle Power Plant, Balearic Islands

2. Business in other countries

The main activities performed by ENDESA in 2016 outside of Iberia were as follows:

2.1. Morocco

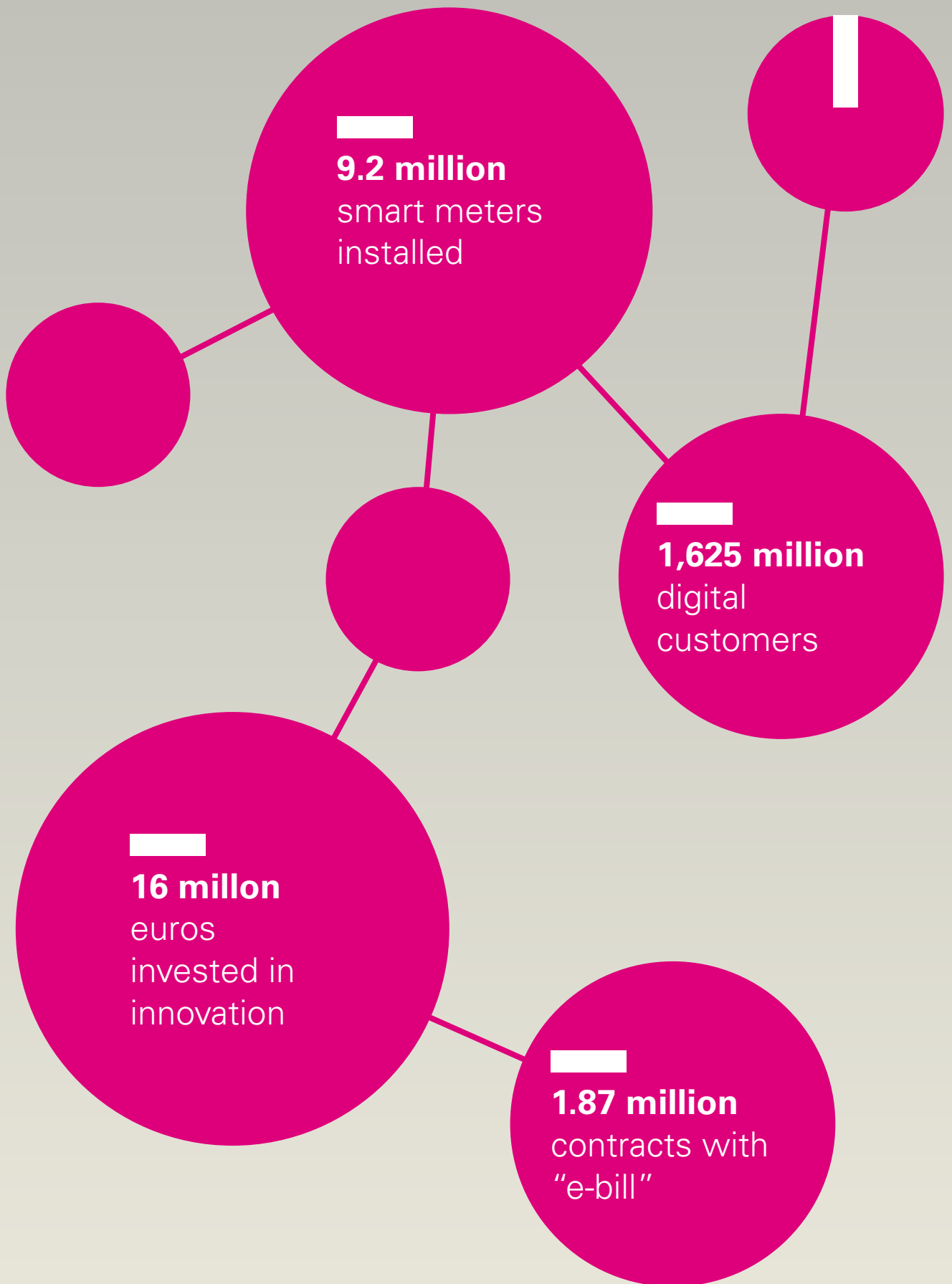
ENDESA is present in Morocco through a 32% stake in Energie Electrique de Tahaddart, a company that owns a 384 MW combined cycle power plant located to the north of the town of Asilah, near the river Tahaddart. In 2016, production of the plant reached 2,609 GWh (835 GWh 32% corresponding to ENDESA).

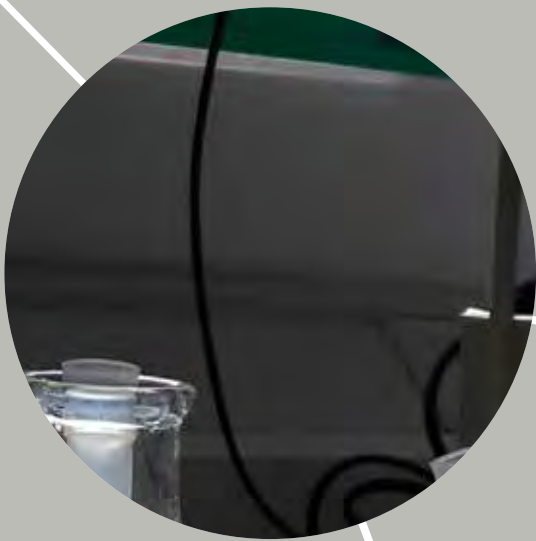
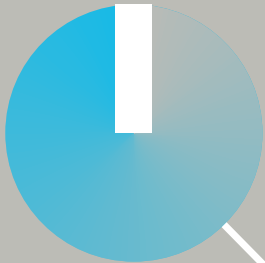
In 2016, Energie Electrique de Tahaddart distributed the dividend corresponding to the 2015 financial-year results, of which 4.7 million euros corresponded to ENDESA.

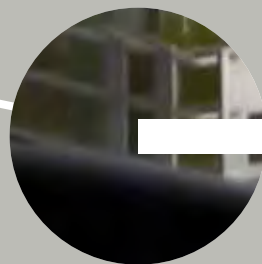
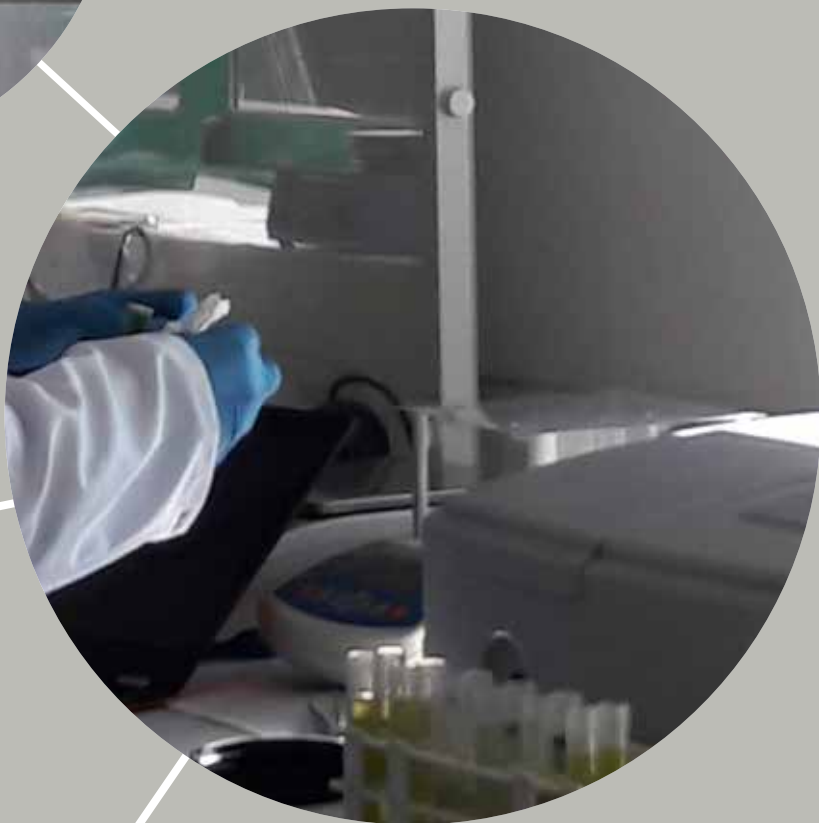
2.2. Energy management and participation in European wholesale markets

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

In 2016, the European electricity spot prices continue at low levels, despite availability problems in French nuclear power plants. Germany registered an average price €28.98/MWh (€31.62/MWh in 2015), and France of €36.75/MWh (€38.47/MWh in 2015).







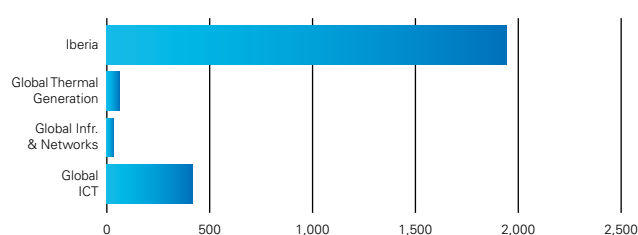
Other activities

1. Procurement

In 2016, the ENDESA Procurement Department managed the contracting of materials, equipment, works and services for an amount of 2,477 million euros. The saving achieved in procurement management was in the order of 9.2%.

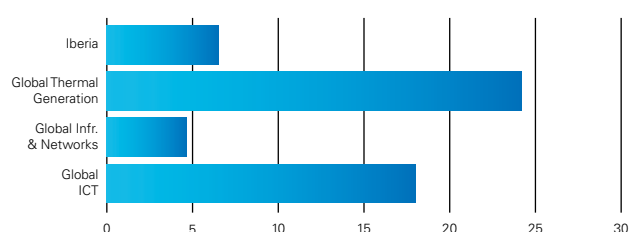
Contracting volume

Mill. euros



Saving

%



1.1. Corporate actions

Corporate actions are transversal actions, between the businesses, that aim to take advantage of economies of scale and process optimisation. In 2016, work was performed on the adaptation and application of the new edition of “Global General Contract Conditions of the Enel Group”, in addition to the “General software and cloud services conditions” and various globally applicable corporate policies and procedures for all Group companies.

This year saw the development of a new procurement portal (“Open Supplier Portal”), which improves user experience,

enabling a more direct and dynamic relationship with both current and potential suppliers. One of the aims in developing the website was to offer more and better quantitative and qualitative information. This is a reason why the focus was placed in the clear and intuitive organisation of messages and documentation, thus facilitating usability and access to information of interest.

The pilot project “Standard Cost Curves (PxQ Budget Model)” was defined which, developed together with the Planning and Control area, seeks to consolidate planning with the budget, facilitating the efficient adjustment of the forecasts with the assigned capital.

Among the other actions performed during 2016, we should mention those related to improving the reporting system (with the aim of improving activity transparency), identification and use of synergies that allow improving procurement efficiency, in addition to actions to enhance activity coordination to guarantee supply chain sustainability to adapt the best practices in the process activities.

The Supplier rating system was implemented in 185 purchase families, 120 global families (international rating) and 65 local families in ENDESA. Optimisation also started in the classification and standardisation of families rated in the Enel Group, considering the integration of services and, therefore, reduction in number of existing families. During 2016, 360 new ratings were performed, compared with 277 in 2015, a 30% growth in new ratings. Thus, during 2016, the total purchases from rated vendors has reached 65.1% of the amount total contracted, compared with 57.3% in 2015.

Furthermore, ENDESA forms part of the Repro platform (Supplier Register) which has enabled it to form part of an online community of the utilities, oil and gas industry for Southern Europe and Latin America. This platform connects buyers and suppliers with the aim of allowing the utilities to

manage and reduce the risk of their supply chain via a rating system that compiles and checks supplier information. This platform includes performance of social audits, which in 2016, were 149 for Spain and Portugal, of which 38 were ENDESA suppliers.

In Occupational Safety and Health, the Onsite Audits have continued regarding the main risk activities and the global methodology to assess Occupational Safety and Health commenced. This will be implemented in 2017 as component of the sustainability requirements for the company.

1.2. Actions in Spain and Portugal

The total contracting volume of ENDESA in Spain amounted to 1,939 million euros in 2016. The main contracts include the following Framework Agreements:

- > Multiservice contract for a total amount of 466.5 million euros for the maintenance and execution of new works in LV/MV grids.
- > Carat España, S.A., for an amount of 64.6 million euros. This contract includes the Resource Agency: Campaigns, Agreements and Power Outages for the 2016-2018 period.
- > Surveillance services for the 2016-2019 period for a total amount of 42.5 million euros.
- > Atento Teleservicios España, S.A., for an amount of 41.4 million euros, for ENDESA's call centre.
- > Clece, S.A., for an amount of 27.8 million euros, corresponding to the comprehensive management of cleaning, maintenance and space management services.

1.3. Procurement of systems and communications

The annual contracting volume for procurement of Systems and Telecommunications in ENDESA was 417 million euros in 2016. This includes:

- > Hybrid IT Services contract, awarded to the vendor IBM Italia, S.p.A., for an amount of 42.3 million euros (with the company Enel Iberoamérica S.r.l.), covering the following services: IBM Mainframe, Midrange, Cloud Software and Out-tasking Services, Business Continuity.
- > IT commercial Services Framework Agreement, for a total amount 134 million euros, during 5 years, covering IT services for BI, Testing services, Integration services, back Office and front Office services to cover the ICT Spain commercial services.

1.4. Global Thermal Generation Procurement in Spain

The annual contracting volumes for Global Generation procurement in ENDESA amounted to 72 million euros in 2016. This includes:

- > Contract for the engineering, supply and assembly of desulfurisation of the Puentes Thermal Power Plant, with the vendor Alstom Power Italia S.P.A., for a total amount of 27.1 million euros.
- > Contract with the vendor Man Diesel & Turbo SE, for an amount of 5.9 million euros, for the Exhaust Gas Treatment System in Ibiza Units 16, 17, 20 and 21.

1.5. Global Infrastructures & Networks Procurement in Spain

The annual contracting volumes for Global Distribution procurement in ENDESA was 49 million euros in 2016. This includes:

- > Framework Contract with the vendor Ormazabal Media Tensión, for an amount of 19.2 million euros, for the Supply of ENDESA Standard Remote Control Spare parts for the Great Quality Plan and fault requirements.
- > Global tender for a total amount of 16.3 million euros, for the Supply of Distribution Transformers under Ecodiseño specification, during the 2016-2019 period.



Open Power Space in Madrid head office

2. Risk management

The Risk Management and Control Policy, approved on 15 June 2015 by the ENDESA Board of Directors, seeks to guide and direct the set of strategic, organisational and operational actions that allow the Board of Directors to accurately delimit the acceptable risk level, with the aim that the managers of the different business lines can maximise profitability for the company, preserve or increase its equity and own funds and the certainty in its achievement above certain levels, avoiding that uncertain and future events may negatively influence achievement of profitability targets set by the company.

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

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

- > Periodically provide the Board of Directors with an overview of the exposure to current and foreseeable risk.
- > Guarantee Senior Management participation in the strategic risk management and control decisions.

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

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

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

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

- > **Identification.** The objective of risk identification is to maintain a prioritised and updated repository of all risks assumed by the corporation through the coordinated and efficient participation of all Company levels.
- > **Measurement.** The objective of the measurement of parameters that allow an aggregation and comparison of risks is to obtain a global quantification of exposure to assumed risk, including all ENDESA positions.
- > **Control.** The objective of risk control is to guarantee adaptation of the risks assumed by ENDESA to objectives ultimately determined by ENDESA's Board of Directors.
- > **Management.** . The objective of risk management is execution of the actions aimed at adapting the levels of assumed risk at each level of the Company, to the predisposition and tolerance to fixed risk.

This process aims to give an overview of the risk aimed at assessing and prioritising risks. It covers the main financial and non-financial risks that ENDESA is exposed to, both endogenous (external factors) and exogenous (internal factors), being shown in an annual map that includes the main risks characterised and quantified and establishing periodical revisions.

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

ENDESA's regulatory system, the internal controls, together with the supervision performed by Internal Audit, guarantee the controls to minimise the operational risk that may generate an economic, social, environmental and reputational impact, as well as legal and fraud risk. In this regard, the Internal Audit function has the mission of:

- > Systematically and independently assessing the efficacy and suitability of the company's internal control system.
- > Supporting the different company areas in risk supervision and identification of actions that mitigate it.

The party responsible for Internal Audit function periodically informs the Senior Management and Audit and Compliance Committee of the result of his/her work, gives support to them as regards internal control and ensure suitable supervision of the company compliance programs.

Likewise, the quality and reliability of the financial information that the listed companies disseminate to the market is a vital element for company credibility, which significantly affects the value given to it by the market. Therefore, the dissemination of incorrect or low-quality information could cause a significant decrease in company value, with the consequent negative effect for its shareholders.

With the aim of mitigating this risk, ENDESA has implemented an Internal Control System of Financial Information (SCIIF), which has the purpose of establishing the procedures and controls deemed necessary to guarantee the quality of financial information published by ENDESA.

The information regarding ENDESA's Internal Control System of Financial Information (SCIIF), summarising ENDESA's internal control procedures in relation to the annual financial information, is included in detailed form every year in the Annual Corporate Governance Report and is reviewed by the Company's accounts auditor.

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

3. ICT Systems and Telecommunications

The activities performed by ICT-Systems and Telecommunications throughout 2016 were aimed at achieving the strategic priorities defined by the Group.

This year's strategic priorities have mainly focussed on global ICT serving as an engine for the Company's digitisation strategy, an aspect where a relevant part of the investments have centred. Additionally, during the year it has been possible to successfully culminate the transformation of operations to a single model throughout Enel Group, Hybrid Cloud, to capture the operating and economic advantages presented by the new technologies. This, without forgetting that it has continued with the rationalisation strategy of the Company's application portfolio and standardisation of IT solutions, with single platforms throughout the Group for various business solutions.

The most relevant actions of 2016 are shown below.

3.1. Strategy, transformation and service model design

The following actions stand out globally:

- > Start of the **Evolution for Energy, E4E** program, which proposed, on Group level, the global Business transformation and optimisation of the application map. This will allow simplifying ICT management and introduce greater technological innovation.
- > **Global intranet.** Unification of Enel Group employees' corporate intranets, with global and local content, in Spa-

nish, English and Italian. Personalised information depending on needs and user profile. Go live 21 November.

- > Global Institutional Hub (ENDESA.com). Optimisation of Enel Group's digital ecosystem by unifying and homogenising the entire image of all ENDESA's external institutional website in a single Hub to guarantee the Open Power positioning and ensure ENDESA's image in terms of being an innovative, open, social and sustainable company.

The following actions are relevant in ENDESA:

- > Implementation of the Staff&Services Solution contract with Indra and Everis. These contracts are awarded in a model of 3 base years + 2 optional years and are in line with Enel Group's software maintenance and development philosophy.
- > Commercial Systems Tender. These contracts, in line with Enel Group's software maintenance and development philosophy, make it possible to capture a large volume of economic and operating synergies, integrating most of the services required by the Company's Commercial Systems.
- > ENDESA Hackateen. Challenge to the children of ENDESA employees to design a robot of the future which will help look after our planet. 48 participants were divided into eight teams that presented their proposals to be winners of the competition. Only three were chosen as the most creative and original.
- > ENDESA Hackathon. It brought together 40 developers, programmers and designers in Madrid in search of mobile solutions to change the future of energy.
- > ENDESA Datathon. It challenged developers expert in Big Data throughout the world to demonstrate their crea-

tivity and innovative capacity to transform the future of energy in Spain. After 6 months of global competition, 40 participants submitted their proposals. The best three ideas chosen by an international panel were presented to the public in the award event that took place in the Madrid head office Auditorium.

- > **ENDESA Blockchain Labs.** It seeks the best innovative ideas in the world of energy that use blockchain technologies to collaboratively develop new solutions to change our world. Competition open until April 2017.
- > **External sites.** In April and May, support to the launch and management of Ethical Hacking and CyberSecurity audits on the new external sites directly managed by the (RHO and Communication): *ENDESA Light*, *ENDESA Movilidad*, *Formación Digital Opinno*, *Entradas y más*, *Carrera EFR Conciliación*.

- > **Collaborative tools** for employees, such as implementing a unified communication and collaboration solution (Skype for business), sharing files in the Cloud, implementation of an internal social network and choice of Windows 10 as corporate platform.
- > **Technological spaces**, a new services ecosystem focussing on people's needs, where employees can go to resolve doubts or find out information: digital support within the facilities, collaborative room kit, direct contact space to complement self-service solutions.
- > **Digital & Personal Productivity Services.** Flexible and next-generation tools and services, such as Lync, Outlook, FileBox, myEcloud or SharePoint sites, to improve working efficiency, information access and exchange, collaboration and communication between employees, even facilitating work between distributed teams.

3.2. Infrastructure and technological services

Additional to participation in the main business projects developed by ICT by the Infrastructures and Operations area, continuity was given to the projects started in previous years aimed at homogenisation of the Global Services provision for all Enel Group companies. The following can be highlighted:

Distributed operations

- > **OneClick.** New Telecommunications and Systems services portal to facilitate requests and problem solving for end users.
- > **Migration to eGlobal7 platform.** Migration to the eGlobal7 platform (Windows 7) of the workstations and virtual PCs. In Spain, close to 5,000 computers have been migrated at year-end.

Telecommunications

The Telecommunications area has focussed on responding to the needs of the different businesses and users, providing the services and rolling out the necessary telecommunications infrastructure to perform company activities. The main projects include:

- > **Abraham II.** global award to implement a homogeneous fixed data services model in all Company countries, with the aim of implementing a homogeneous model, optimising global projects.
- > **Global Area Network.** construction of a Unified Packet Network connecting all countries where Enel is present.
 - **International Backbone.** The migration of all services is completed to the new network architecture of the new operator (British Telecom).
 - **Core Network Spain.** Roll-out finalised in all areas. Services migrated in South Area and Catalan Area. Implementation in progress in the Central Area.
- > **Unified communications.** Integration of the structures dedicated to the Communication and Collaboration services.

Data Centre Operations

- > **Operations transformation.** Gradual migration of applications from the current infrastructure to the cloud (simple applications) and data processing centre in Milan (complex applications).
- > **Operations Transformation, Phase II.** Migration of the complex applications (*Big Elephants*) and SAP from the Milan data processing centre to various *cloud* IaaS providers (mainly Amazon) or SaaS (Salesforce and SAP, mainly).

3.3. ICT Spain

Projects related to the digitisation strategy were implemented for Commercial Systems. In relation to *Staff & Services* activities, various projects have been implemented to deal with requirements in the corporation areas, highlight the works related to change of corporate image of Enel Group and, consequently, of ENDESA. The most relevant projects in this period are:

- > **Road Map Contact Center.** Establishment of the *road map* for 2017-2020 with the projects to be performed in the Contact Center. The new architecture shall be unified throughout Enel Group and strongly commits to single-channel mode and management via digital solutions.
- > **Ítaca Project.** Iberia region multiservice platform for the supply of information, management and control of energy, via connection of the platform with a series of metering devices located in the customer's facilities which provide real-time energy consumption information.
- > **Knowledge Management.** Integrated knowledge environment that allows monitoring and management of all commercial activity of small customers.
- > **Zero paper.** Aims to eliminate paper from the commercial processes performed in the offices and in the Service Points. A digital signature solution has been developed including integrated document management.

- > **Digital channels.** Salesforce-based solution to attend to customers by Chat, Email, Twitter and Facebook.
- > **Self-consumption Royal Decree.** In April, the systems were developed to be able to operate contracting these self-consumption supplies and billing the charges sent by the distributors for these items.
- > **Biofuels Royal Decree. Automation of gas billing fractioning.** Automation, for the Gas business, of the prorating in regularisation between cereals defined in Royal Decree 1085/2015, for cases where the distributor regularised a contract with more than a year without metering.
- > **Wait management.** Implementation of the new Wait management in commercial offices, with new centralised technology and which provides new functionalities in continuous evolution. There are now 106 offices with the new system implemented.
- > **Fast calculator.** Calculator that gives power to the commercial systems to adapt to the billing of non-energy services.
- > **CRET@ implementation in the HR system:** Adaptation of the payroll system to the new self-payment system of contributions to the Social Security.
- > **Rebranding of Enel Group.** Adaptation of the different ENDESA systems to the Group's new corporate image.

3.4. Infrastructures and Networks

Regarding Distribution Systems —Infrastructure & Networks, the roll-out plan of solutions tending towards convergence of technical systems has continued. The projects' main milestones include:

- > **CUATRO-Complaints.** Development and Implementation of the new complaint management system, which will be used for all complaints, irrespective of the origin (customer, reseller, administration, etc.) and of the type.

- > **VPSC-SIME.** Development of a new Metering Management System based on the SMILE system, to centralise all metering actions and cover all regulatory requirements of Royal Decree 216/2014.
- > **Revenue Protection project with C3.** Over a universe of 1.4M of supplies (remote and mechanical metering), it aims to verify the improvement in fraud detection.
- > **RADIS** project. Building a system to calculate distribution asset payment according to the new Royal Decree 1048 regulation.
- > **CUATRO-NNSS.** Development and implementation of the new *front-office* system for new supply requests.

- > **Credit Risk.** Improve the Credit Risk calculation process, improving its performance.
- > **VEGA.** Aims to renovate the energy control system hardware and software.

3.5. Generation, trading, renewable and upstream gas

Global Trading

- > **IBOST.** System to contrast liquidation with System Operator.
- > **EMISS.** New site in Document Manager to record Credit Risk information.
- > **SIGMEL.** Implementation in the system of the information exchange module and its later monitoring, regarding electrical metering and remote control and smart metering.
- > **MIGAS.** Development fuel management improvements in logistics, operation, monitoring, billing and settlement of natural gas transactions (NG and LNG).
- > **MAR.** Project to identify and implement a global solution that guarantees compliance with regulatory requirements stemming from the *Market Abuse Regulation*.

Global Generation

In ENDESA, the main actions have aimed to increase the security, reliability and availability of systems, plus continue with the roll-out of applications in new facilities:

- > **PWAY project.** Implementation of a global onsite data gathering tool as a result of Plant supervision. These data are integrated in systems and maintenance processes.
- > Commissioning project of the **Gorona del Viento Hydroelectric Pumping Plant** (El Hierro) within the AGC (Automatic General Control) of the Spectrum 3.9 control system of the Canarias Power plant.
- > Execution of the 2013-2018 multi-year plan to strengthen security in ENDESA's **hydroelectric control systems**.
- > **MEDAS PI 16.** Migration of the functionalities relating to environmental control in General systems from the MEDAS system to the SIP CMD system to eliminate the first. Project plan approved by the Business. Functional Design and User Testing Plan pending approval.
- > **Equipment monitoring.** Roll-out in several thermal power plants of equipment monitoring technologies, alternative engines, transformers, alternators.
- > Start of the **E4E GEN Iberia Project**, within the **Evolution for Energy (E4E) program**, which proposes, on a Group level, a transformation of the Business and optimisation of the applications map, which would enable simplifying ICT management by introducing greater technological innovation.

4. Resources Department

The Resources Department, formed by the Assets, Services, Safety and Security, Quality and Efficiency, and Comprehensive Office Improvement Project (PIMO), has performed the following relevant activities in each one of the following areas of action during 2016:

Town planning, urban development and defence of property

4.1. Comprehensive office improvement project

The objective is the closure of around one hundred offices and the adaptation of another fifty to house the employees in fewer buildings, improving the working environment and the sustainability of the existing offices. The closures would involve savings of 30 million and the possible sales would give revenue of 23 million.

In 2016, 25 offices were closed giving a reduction of more than 20,000 m² of office and the new buildings in Zaragoza and Cordoba were put in motion.

In 2016, ENDESA and its subsidiaries owned 39,472 properties with an approximate cadastral value of 4,432 million, of which 92% has industrial use (includes agricultural), and 8% non-industrial (commercial, residential, etc.).

Main actions

ENDESA has a financial stake in the real estate development company Nueva Marina Real Estate S.L.. In relation to urban development transformation activities, we can highlight the actions performed in the land occupied by the former thermal power plants of Sant Adrià, Foix and Alcudia. In the first, the actions were related to decommissioning work and for Foix thermal power plant work was done on the demolition work plan.

4.2. Assets

The Assets unit manages the properties and maximises the value of its real estate from the sale of assets not necessary for operation of the main businesses, urban land transformation and implementation of sustainable development models with third parties in lands with great environmental value.

The most relevant activities and figures from 2016 in the asset area are summarised below:

Furthermore, work was performed on planning the demolition work and reversion of the facilities and land corresponding to the former Alcudia thermal power plant, currently blocked at the request of the competent public bodies given the degree of protection of said infrastructures.

During 2016, actions continued in managing the land from old mines in the provinces of Teruel, Barcelona and Cordoba to execute the agreement with Public Administrations and, in particular, in addition to the sale of other resulting assets.

Management and administration of property

The total volume of leases is 420, of which 9% correspond to offices for an amount of €29.24M which is 96% of the total amount.

The sales of unused properties of ENDESA group during 2016 came to 7.2 million euros in Spain. The Asset Portfolio Efficiency Project, that commenced at the start of 2016, is an ambitious project to put up for resale a portfolio of unused properties through an external real estate agent from 2017 on.

In the construction chapter, we can highlight the completion of the refurbishment of the Aznar Molina and Argualas buildings, in Zaragoza, and the Omeya in Cordoba with investments of 7 and 3 million euros, respectively.

4.3. Safety and Security

The Safety and Security unit has the responsibilities of assessing and managing the threats and risks of security of people, information and infrastructures, to guarantee the solutions that mitigate these risks; apply the security procedures as per Group policies and handle the crisis management process; and manage relations with the Law Enforcement Authorities.

Some of the most relevant activities and figures from 2016 regarding security are shown below:

Operational security and intelligence

During 2016, 37,000 alarms and 1,000 technical incidents have been attended to, handled by the Security Management Centre, of more than 485 remote installations. Furthermore, more than 30 specific supervision and protection forces have been deployed due to events and incidents in the head office.

Throughout the year, the operating processes of legal and reputational risks analysis have been consolidated (counterpart analysis) giving 552 verifications, 180 companies being

monitored, 4 situational analyses and 9 analysis reports. Furthermore, 53 investigations of situations of organised fraud have been opened.

Critical processes

This aspect highlights the official approved of 21 Specific Protection Plans and production of 21 virtual fingerprints, of ENDESA's critical infrastructures by the State Secretariat of Security.

In 2016, more than 500 medium/high risk incidents were detected for information security that were managed directly or in cooperation with public bodies (CERT-SI, CCN, CAT-CERT).

Information security

Two actions must be cited in this section, on the one hand, the tender, commissioning and technical monitoring of the external compliance audit with security measures arising from the Spanish Data Protection Act (LOPD), and on the other, the implementation of the Centralised Platform of Digital Certificate and Electronic Signature Management.

Security engineering

New integrated security systems have been developed in 15 electrical substations, 22 hydroelectric production plants, 2 port terminals, 7 thermal power stations, 3 civil buildings and the design of 8 new projects. Furthermore, a biometric access control system has been designed and implemented.

Finally, and transversally to the area of Security, we can highlight the new Security Awareness Plan for ENDESA employees, reinforced with integral renovation and expansion of the contents of the specific minisite in the corporate intranet.

4.4. Services

The Services unit manages office services, vehicle fleets, trip management and management of relations with contracts as regards compliance with labour obligations.

Building management

In 2016, the transfers and removals to the new offices implemented have taken place: Aznar Molina and Argualas, both in Zaragoza, and Omeya in Cordoba.

Likewise, new working spaces have been established in other offices, such as the Open Power Space coworking space and the meeting rooms of the Business Center in Madrid in addition to a Collaborative Area for people who are not staff members in Barcelona.

Energy efficiency

Services manages, through the Integrated Environmental, Energy and Indoor Environmental Quality Management System (SIGAEC), 24 office buildings, that cover 67% of the total floor area (164,977 m²) and 80% of occupation (5,664 people).

On 17/06/2016, the Company obtained the renewal of the SIGAEC triple certificate.

During 2016, the downward trend was preserved of significant consumptions of previous years, the results of which are the following:

- > Reduction of electricity consumption with respect to 2015 of 2,993 MWh (1,137 Tn eq. CO₂).
- > Reduction of water consumption with respect to 2015 of 19,611 m³.
- > Reduction of non-hazardous waste generation with respect to 2015:
- > Reduction of the fuel consumption (diesel) with respect to 2015: 5,473 litres (58 MWh) (15 Tn eq. CO₂).

On a group level, ENDESA complies with Royal Decree 56/2015 covering 88.9% of the Company's final energy consumption and the Services area provision being 78.64%.

The Company head office obtained an important recognition, the Sustainable Building Award, granted by the Community of Madrid and the corresponding Energy Certificates have been obtained in 27 buildings.

Health and Safety

The Services area has the ongoing commitment to ensure and guarantee the health and safety of our employees and

contractors, arising from the implementation and maintenance of the OHSAS 18.001:2007 management system (100% office buildings) renewed on 07/12/2016.

During 2016, 989 Safety Inspections were performed on the different contractors that operated in the area of action of the Services unit.

Trip management

The management of savings for trips during 2016 allowed a 0.6% saving compared to the previous year.

Fleet and mobility management

The *car e-sharing* service was launched. This is a pool of vehicles in the main offices for employees to use for work. Since its launch, more than 100,000 km has been travelled, a reduction of more than 12 tons of CO₂.

Different actions have been implemented to improve fleet efficiency and electrification. This includes: the reduction and elimination of 35 combustion vehicles; the incorporation of 78 electric vehicles and the replacement of 40 combustion vehicles for others with lower emissions.

4.5. Contractors

Contractor control is the specialised unit that supervises that the external workers that provide service in our facilities or those of our customers, follow legislation and our internal regulations, in optimum safety conditions, avoiding any type of risk for ENDESA.

The average workforce of the Company in 2016 was 26,433 workers, of which 61% belong to contractors and subcontractors. The average number of external collaborators was 16,141, a 6% reduction compared to the previous year.

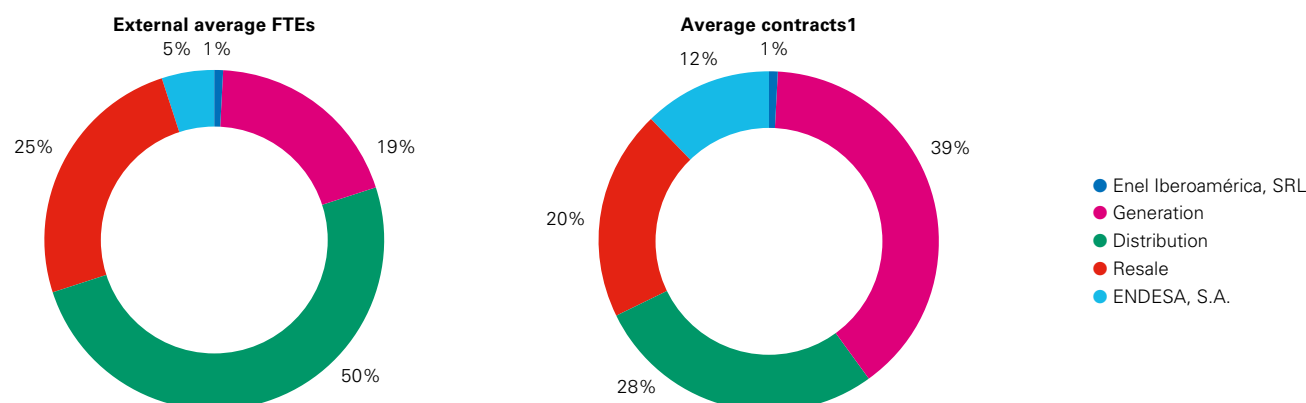
Throughout the year 269 audits have been performed on contractor companies (legal-labour/economic risk and sustainability) of which 32% passed to special supervision due to documentation irregularities.

Summary of information of contractor companies

No.	January-December 2016	January-December 2015	Real vs. AA. (abs.)	Real vs. AA. (%)
External average FTEs	16,141	17,108	(967)	(6)
Own average workforce	10,292	10,484	(192)	(2)
External FTEs/own workforce	157	163	(6)	(6)
External occupied workers	18,420	20,320	(1,900)	(9)
Average hours worked	30,102,918	31,664,663	(1,561,746)	(5)
Average contracts	2,505	2,837	(332)	(12)

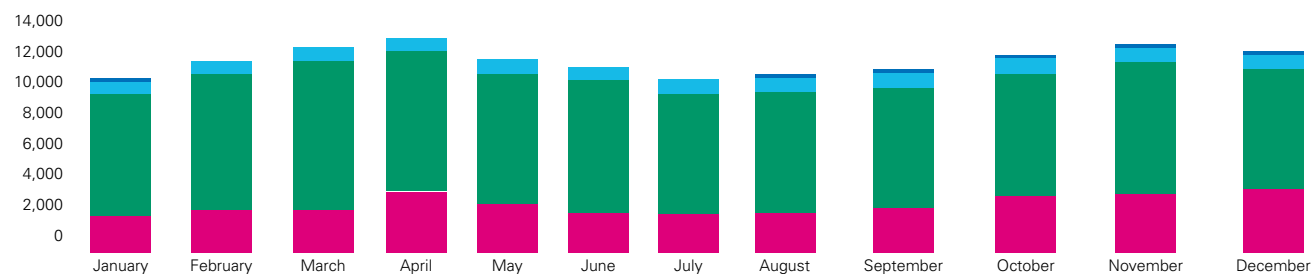
FTE: Full-Time Employees.

Summary by business lines / company

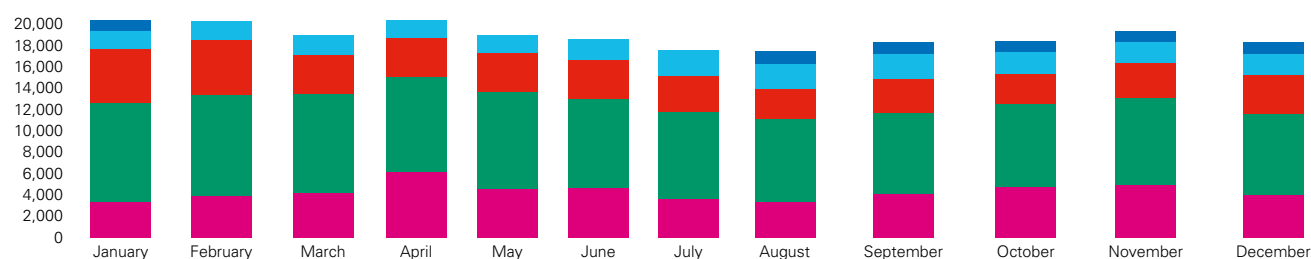


Monthly evolution of the main indicators

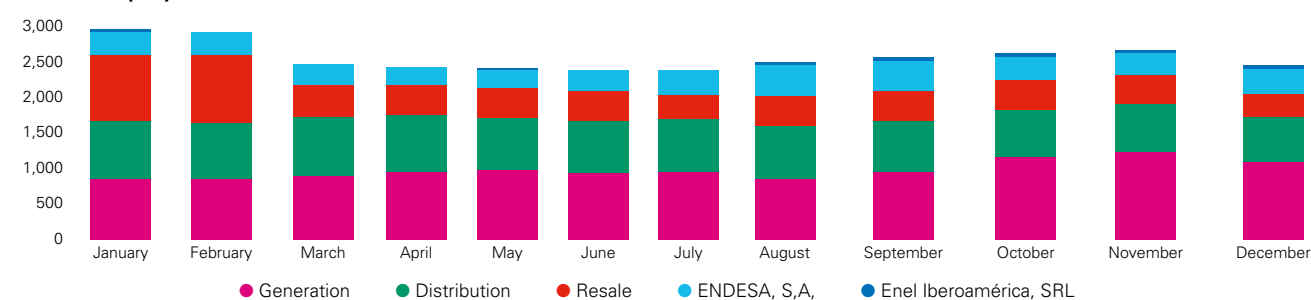
Average external FTEs 2016



External occupied 2016



Partner company contracts 2016

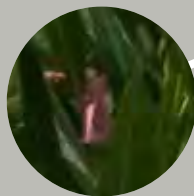
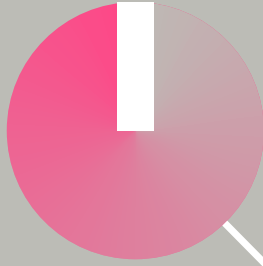


20% of
ENDESA's
fleet of vehicles
is electric

274 electric
vehicles
purchased by
employees

The
ZEM2ALL, project,
for e-mobility
travels 4.6 million
km in 4 years

More than **800**
Tn of CO₂
Avoided
annually





Sustainability

1. ENDESA's commitment to Sustainability

Sustainability is responsible growth, i.e. the integration of social and environmental opportunities in its strategy and management model, enabling business goals to be achieved and maximising long-term value creation for the Company and local communities where it operates.

This firm commitment to sustainability was further consolidated by approval of the Sustainability Policy by the Board of Directors on 21 December 2015. The future commitments set down in this policy are the guidelines and foundations for ENDESA's performance in management of its business

activity. Compliance with this policy is expressly promoted by Company Management, and it concerns employees, contractors and vendors, and is presented for assessment by third parties. Likewise, the Board of Directors, through the Audit and Compliance Committee, supervises correct compliance with the policy's principles throughout the Company's value creation chain.

This policy is implemented based on ENDESA's different Sustainability Plans.



ENDESA's CEO in the opening of the Pangea event

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

In September 2015, the General Assembly of the United Nations adopted the Agenda 2030 for the Sustainable Development Goals. 17 Goals that give an action plan to help people, the planet and prosperity. It also has the intention to strengthen universal peace, access to justice and the fight against climate change, where the business sector was called to actively participate.

ENDESA is firmly committed to the new Agenda for Sustainable Development of the United Nations and recognises the historic opportunity of the new Sustainable Development Goals and the implications for the private sector to overcome the main challenges society is facing.

- > SDG4 (Education): support for the education of 400,000 people in 2020, through different educational projects
- > SDG 7 (Energy): promotion of access to affordable and modern sustainable energy, benefitting 3 million people until 2020.

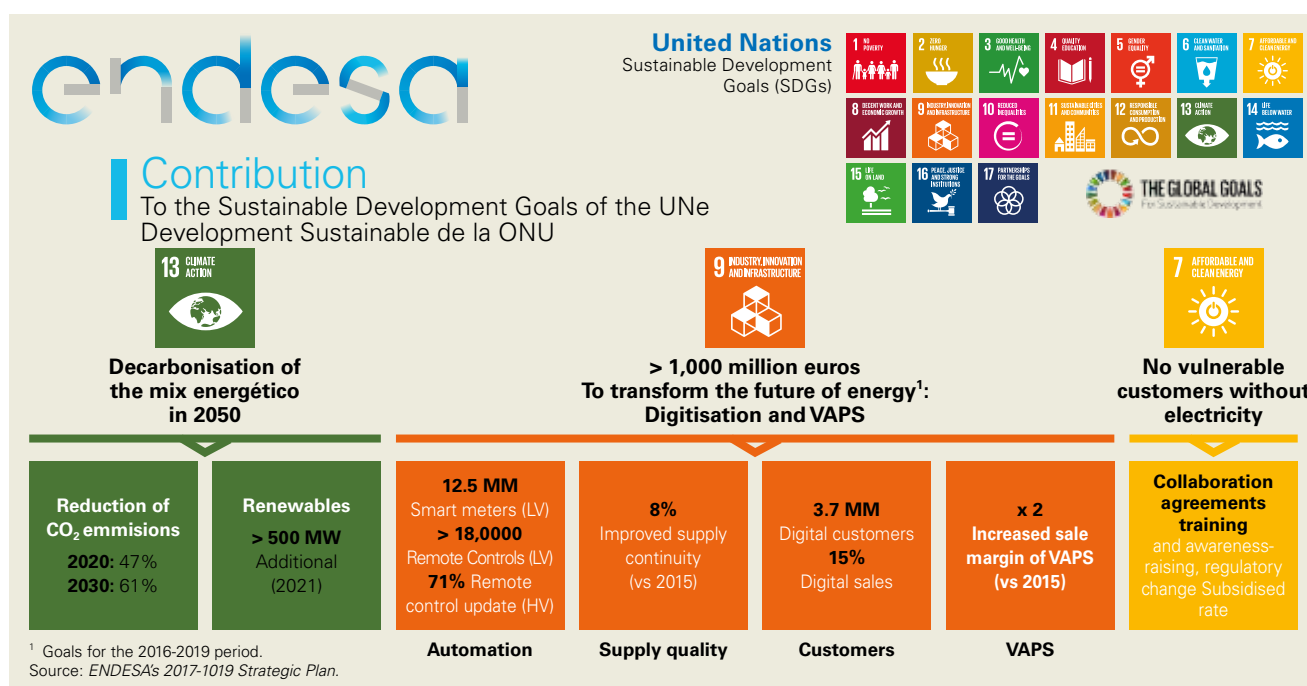
> SDG8 (Economic development): promotion of employment and sustainable, inclusive and sustained economic development for 1,500,000 people in 2020.

> SDG13 (Climate): adopt initiatives to fight against climate change, with the aim of achieving carbon neutrality in 2050.

On 23 November 2016, ENDESA presented the new 2017-2019 Strategic Plan to its investors. This sets the roadmap for promoting a more sustainable energy model and achieving decarbonisation of the energy mix in 2050. This is in alignment within the new United Nations Agenda for Sustainable Development.

During this presentation, ENDESA announced its specific contribution to the Sustainable Development Goals:

> SDG 7 (Energy) No vulnerable customer without access to electricity, acting on 3 axes: signing collaboration agreements with the Public Administration, training and



awareness-raising about the responsible use of energy and development of a regulatory proposal for the subsidised rate.

- > SDG 9 (Innovation): investment of 1,000 million euros until 2019 to promote digital transformation and the development of energy solutions.
- > SDG 13 (Climate): decarbonisation of the energy mix in 2050, establishing intermediate goals for absolute CO2 emissions reduction of 47% in 2020 and 61% in 2030 with respect to 2005.

Likewise, ENDESA shall also contribute to the commitments established by Enel with respect to SDG4 and SDG8 through the social initiatives performed by the Company and its Foundation.

Nonetheless, even though these are the SDG with greatest priority for Enel and ENDESA and, hence, those they will place most emphasis on in the coming years, they will also act decidedly on the other 17 Goals, through its 2017-2019 Sustainability Plan.

(More information on pages 17 to 22 of the ENDESA Sustainability Report).

3. The strategic planning of sustainability

3.1. Main sustainability risks

ENDESA is exposed to certain risks that it manages through the application of identification, measurement, control and management systems. To do this, it considers the different types of financial and non-financial risk (including operating, technological, legal, social, environmental, political and reputational) that society faces. These aspects are integrated in the Company's control and risk management system and are supervised by the Board of Directors' Audit and Compliance Committee.

During 2016, ENDESA identified emerging sustainability risks with medium and long-term impact that are related to any of the dimensions of sustainability with the aim of analysing its impact on the business and establishing the control and prevention measures. It analysed the various global trends and risks identified by different institutions such as the World Economic Forum or socially responsible investment analysis.

This analysis shows that climate change is the risk that has greatest relevance for the Company, due to its activity, and it is exposed to different risks arising from climate change, that may cause a negative impact due to the legal and social demands in generation and distribution businesses.

Likewise, after COP21 the States' concern for the fight against climate change considerably augmented. It is therefore expected that the regulatory pressure on the ener-

gy industry, among others, is intensified. ENDESA, fully aware of this context, shares this concern and, therefore, the new 2017-2019 Strategic Plan presented in November 2016 identifies decarbonisation of its energy mix in 2050 as one of its strategic priorities, establishing the roadmap to achieve this.

Another of the increasingly relevant emerging risks is cybersecurity. The new 2017-2019 Strategic Plan identifies digital transformation as a vital means for achieving a sustainable energy model. ENDESA, therefore, acts on 3 main axes: digitisation of company assets (generation facilities and electricity distribution grid); development of a digital culture within the company, and digitisation of our customers and how ENDESA relates to them. This transformation also entails an increase in exposure to potential external cybernetic attacks.

Likewise, the Company's critical infrastructures, understood as those whose operation is essential and do not allow alternative solutions, may also be exposed to this type of attacks that may cause a serious impact on the services they provide. Thus, cybersecurity risks have been identified by the Company as an emerging risk that the Company must manage and control.

In this line, ENDESA, as part of Enel Group, developed a cybersecurity strategy in line with international standards and governmental initiatives, which is based on a process of assessing the main risks and identifying vulnerabilities, in addition to stringent digital surveillance, making sure that current critical infrastructure security legislation is complied with.

3.2. The identification of priority issues

On an annual basis, ENDESA identifies its relevant economic, ethical, environmental and social issues (materiality study) for the stakeholders, that will give rise to the company's strategic priorities. This process is performed by internal and external consultations with stakeholders, in addition to the Company Management and the results obtained contribute to the strategic planning of the business and the design of ENDESA's sustainability plans.

ENDESA's 2016-2019 Sustainability Plan was thus defined, identifying the following priority issues:

- > Economic and ethical issues: economic and financial growth; ethical conduct, and value added products and services and energy efficiency products and services.
- > Environmental issues: fight against climate change; advanced environmental management.
- > Social and ethical affairs, occupational safety and health and responsible relationship with the communities.

At the end of 2016, the study was updated and the results were used to define ENDESA's new 2017-2019 Sustainability Plan and also contribute to establishing the Company's industrial priorities.

- > Economic and ethical issues: financial strength, ethical conduct and good governance; innovation and operating efficiency; customer-orientation (quality and energy efficiency).
- > Environmental issues: decarbonisation and the fight against climate change; renewable energies and efficiency in management of traditional technologies.
- > Social issues: occupational safety and health; responsible relationship with the communities.

(More information on pages 58 to 63 of ENDESA's *Sustainability report*).

3.3. Compliance with ENDESA's 2016-2019 Sustainability Plan

ENDESA's 2016-2019 Sustainability Plan (PES) established 2 priority area of action: promotion of a more sustainable electricity generation model and commitment to sustainable urban development.

Likewise, to guarantee a high level of excellence in responsible business management, 5 strategic pillars were identified, transversal to all company activities: integrity, human capital, environment, supply chain and social commitment.

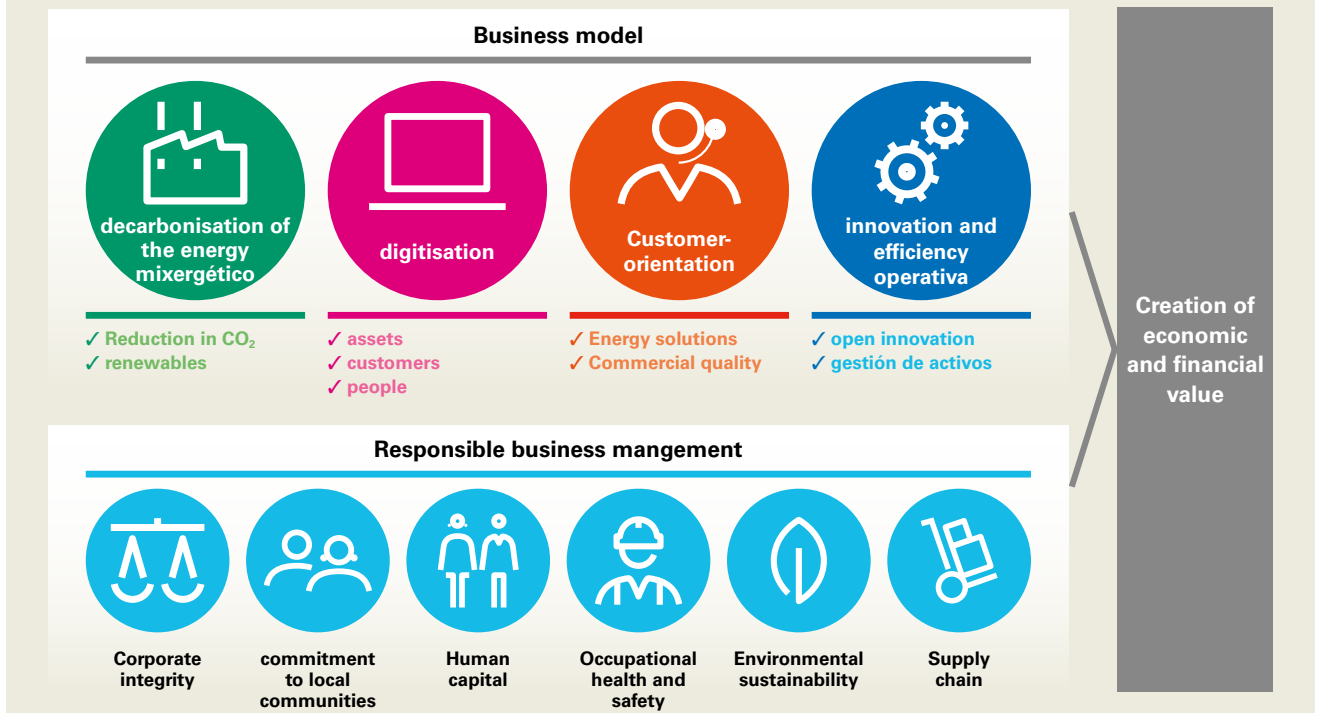
Through more than 80 quantitative management objectives, ENDESA has responded to each of the strategic pillars and priorities defined in the 2016-2019 Sustainability Plan, achieving overall compliance higher than 97%.

As part of its commitment to transparency and in order to build trust with its stakeholders, ENDESA reports on its compliance with the objectives and the actions included in the 2016-2019 Sustainability Plan in its Sustainability Report corresponding to financial year 2016, available on its website.

3.4. ENDESA's new 2017-2019 Sustainability Plan

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

ENDESA's new 2017-2019 Sustainability Plan



Therefore, the new 2017-2019 Sustainability Plan incorporates the strategic lines identified in ENDESA's Strategic Plan, presented on 23 November 2016, and includes the environmental, social and ethical priorities identified from a strategic reflection process and consultation with stakeholders made in 2016.

Likewise, the new 2017-2019 Sustainability Plan defines ENDESA's contribution to UN Sustainable Development Goals. This framework constitutes the basis of the sustainability plan and serves as a reference for establishing a sustainability strategy that enables generating long-term value both for the Company and society.

The new 2017-2019 Sustainability Plan includes more than 100 specific objectives aimed at responding to the following strategic priorities:

> Sustainable business model::

- **Decarbonisation of the energy mix.** Be an emissions-free company in 2050..
- **Digitisation.** Emphasis on digitisation, development of a digital culture and digitisation of customers.

- **Customer orientation.** Development of new business solutions that promote sustainability and improve customer relations.

- **Innovation and operating efficiency.** Promotion of a new open innovation approach.

> Responsible business management:

- **Corporate integrity.** Maintain a high level of excellence in compliance with its ethical responsibility and in implementing the best good governance practices.
- **Commitment to local communities.** Through a shared value approach, ENDESA aims to promote access to energy, social-economic development and education, as cornerstones of its commitment to the local communities.
- **Human capital.** Promote diversity of gender, attracting and retaining talent and professional development.
- **Occupational safety and health.** Encouraging a culture of safety and personal well-being.

- **Environmental sustainability.** Reducing the company's environmental footprint and promoting biodiversity conservation.
- **Sustainable supply chain.** Increasing control and supervision of the supply chain in terms of environmental, safety and human rights aspects.

(More information on pages 72 to 77 of ENDESA's *Sustainability Report*).

3.5. ENDESA's performance in sustainability

3.5.1. Decarbonisation of the energy mix

ENDESA has the commitment to be an emission-free company in 2050 and, therefore, has designed a road-map to undertake progressive decarbonisation of its mix, always guaranteeing supply security and quality and setting reduction targets over 60% in 2030 and 80% in 2040, compared with 2005. It should be noted that in 2016, ENDESA managed to reduce its emissions by more than 43% compared with 2005, thus meeting the target set for 2016 (37%).

ENDESA recognises the essential role that renewable energies must play to achieve long-term decarbonisation. Therefore, in 2016 it purchased all of Enel Green Power España, Enel's subsidiary devoted to renewable energies in Spain, of which it already held 40%, so that all additional capacity installed is performed from renewable sources. ENDESA foresees the investment of over 500 million euros in the coming years to increase its installed capacity in renewable energies.

ENDESA is working at the highest level in compliance with its emission-reduction targets. The Executive Management Committee is the body responsible for defining and promo-

ting policies and the objectives of the fight against climate change, and including them in the Company's decision-making.

3.5.2. Innovation and digitisation

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

Throughout 2016, ENDESA has enhanced its commitment to open innovation as a model for identifying creative ideas that help the Company grow and develop new business opportunities. The purpose is to develop a new culture of innovation that enables creating creative solutions that can transform the current energy model.

Under this model, ENDESA intends to combine internal knowledge with external talent to develop solutions in the following areas: distributed generation; self-consumption; small renewable; energy storage; e-mobility; energy efficiency; home automation, customer experience, digital relationship with the customer and big data, among others.

In this regard, one of the aspects that takes on greatest relevance is digital transformation. This has been reflected in the new 2017-2019 Strategic Plan, whereby the company proposes to become an organisation fully connected to the digital ecosystem, focussing on customers in a smart and flexible manner. This process requires significant change management to successfully tackle the challenge of incorporating the new digital technologies. These new technologies basically allow interconnection between people and objects, and facilitate new access to both traditional and newly-created products and services.

ENDESA's digital transformation is taking place in 3 areas: company assets, the customer and people. For assets, ENDESA has installed 9.2 million smart meters, more than 79% of the 15-kW meter equipment. Likewise, during 2016, a series of initiatives were initiated for generation power plant digitisation with the purpose of boosting efficiency and reducing emissions through the use of new technologies.

Furthermore, ENDESA has a Digital Plan aimed at transforming customers' digital experience. This plan has been a contributing factor to the more than 1.6 million digital customers (registered in www.endesaclientes.com) in 2016, in addition to 1.87 million contracts in force with e-bill. Furthermore, 8% of the sales made in 2016 were through digital channels.

For more information on ENDESA's innovation activities, see the chapter: *Research, technological development and innovation*.

3.5.3. Customer orientation

ENDESA considers guaranteeing access to the electricity supply, as well as its continuity, safety, efficiency and quality, to be a priority. It is, therefore, of vital importance to develop the necessary infrastructures that make this possible, especially in those areas of more difficult access.

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

ENDESA has a Customer Service Excellence Plan, with the purpose of offering its customers the best possible service. It aims to improve the main satisfaction indicators year after year. This plan focusses its activities on the following activities in 2016, among others:

- > Multilingual service and preventive management of dissatisfaction in the telephone service.
- > Evolution of the website: www.endesaclientes.com.
- > Implementation of billing improvements.
- > Optimisation of information quality (updating and enrichment).

The Plan's most significant results in 2016 include:

- > 5% increase in mass market customer satisfaction with the telephone service.
- > 13% increase in number of contracts registered with the electronic bill (e-bill) service.
- > Improvement of almost 7% in mass market customers who do not perceive mistakes in the bill.
- > 11% reduction in average waiting time in offices and service points.

ENDESA's Customer Ombudsman, the only one in the Spanish electricity market, works independently from the Company's management lines and was appointed to provide customers with an additional means of dialogue in connection with the services provided in the market, listening to in-house and external liaisons and proposing recommendations to the Company for ascertaining customers' needs and expectations and methods to improve service quality.

Furthermore, ENDESA has continued to consolidate its portfolio of Value Added Products and Services (VAPS), progressing in new business models and sales channels during 2016. This enables it to sell to customers (households, small enterprises and medium and large companies) a series of products and services that contribute to their sustainability, offering cost savings, reducing emissions and offering improvements in operational and/or energy efficiency.

In this way, in the area of medium and large-sized companies, ENDESA strengthens its position as ESE (Energy Services Company) and it proposes to its customers to invest in improving their installations and manage them integrally. In this way, the customer perceives a saving in his/her energy bill through which it can recompense the improvements made by ENDESA in its installations. With respect to homes, during 2016 ENDESA has continued to develop, its portfolio of Comprehensive Solutions projects. Under this "Comprehensive Solution" concept ENDESA gives small consumers the possibility of paying for energy equipment for his/her home (boilers, heaters, water tanks, air conditioning apparatus) in convenient instalments, with an associated preventive and/or corrective maintenance service and with ENDESA's maximum guarantee during the term of the contract.

ENDESA has set the target of doubling the gross margin obtained from the sale of VAPS in 2019 compared with 2016.

The Company plans to invest more than 242 million euros until 2019 to achieve this.

3.5.4. Responsible relationship with the communities

ENDESA integrates sustainability in local operations and business processes through a “Creating Shared Value” (CSV) approach. This enables legitimising the business and reinforcing its sustainability, generating roots in the community and promoting social progress in the local environment where it operates.

To do this it applies a thorough and stringent methodology of accompanying the businesses in all phases of the value chain throughout the useful life of the assets, which allows incorporating social and also environmental variables in decision-making. The CSV Plans are obtained as an end-product of this methodology. These are a set of action programs and initiatives aimed at improving the relationship with the local environment of the asset accompanied, and which require being constantly reviewed and updated, aligning Company objectives with its stakeholders’ priorities.

There are currently 13 CSV plans operating in ENDESA’s business, which are in different development phases: 11 correspond to thermal generation facilities, one to renewable generation facilities and, finally, one to the infrastructure and grids area. Progressive implementation of this methodology is being performed, and it is planned to gradually extend it to all Company areas, assets and operations in the coming years.

Likewise, in 2016 ENDESA has invested 12.3 million euros in the social development of those communities where it operates, by performing 200 projects which have benefited 888,000 people. These projects are within the areas of access to electricity, social-economic development and support to local communities.

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

- > 1.37 million beneficiaries in access to energy projects, which will contribute to the goal of 3 million people established by the Enel Group.
- > 241,000 beneficiaries in social-economic development activities, aligned with the target of 1.5 million beneficiaries of the Enel Group.
- > 164,000 beneficiaries in education promoting actions, which will contribute to the target of 400,000 people the Enel Group has committed to.

(More information on pages 158 to 176 of ENDESA’s *Sustainability Report*).

3.5.5. Our people

ENDESA continually seeks to identify and develop people’s potential so that their performance can contribute to making the Company a benchmark in the sector. In this way, different professional development actions are implemented, including individual development interview, knowledge interviews, coaching, consulting for team development, workshops for skills development, business knowledge seminars and definition of succession plans.

The Company encourages employee training and in 2016 exceeded the target set in the 2016-2019 Sustainability Plan. A new more demanding target was, therefore, established for 2017-2019.

Another of the lines of action during 2016 has been promotion of diversity in the Company, especially regarding integration of women in positions of responsibility and new recruitments. Thus, the female recruitment figure was of 30.45%, setting a new target of 37% for 2019. Likewise, in 2016, 16.4% of the Executive positions were covered by women and ENDESA establishes the target of 18.5% in 2019.

(More information on pages 186 to 214 of ENDESA’s *Sustainability Report*).

ENDESA considers Occupational Safety and Health a priority objective and a fundamental value to be upheld at all times for all those who work for the Company, without distinction between own staff and its collaborating companies. The integration of this objective in ENDESA's strategy is based on implementing Occupational Safety and Health policies in all companies forming the Group, the implementation of specific work plans that seek consolidation of the leadership model based on the example of the leader and the application of a single and global work conduct observation system.

During 2016, ENDESA has given a total of 147,697 hours of occupational health and safety training to its own employees. 6,995 employees have attended occupational health and safety courses. During 2016, 65,675 safety inspections have been performed in works and/or projects performed carried out by both the Company's own and contractors' employees, which had a significant impact on reducing the number of work-related accidents. Likewise, the number of Safety Walks performed in 2016 came to 247.

All of the work and effort carried out by ENDESA regarding occupational health and safety has led to a significant reduction in accidents in 2016 compared to 2015. In this regard, we should highlight:

- > The reduction of 21% in combined frequency index (employees and contractors), with respect to 2015 has reached a value of 1.01, surpassing the target set for 2016 (1.2).
- > The reduction of 23% in the number of accidents of employees and contractors, with respect to 2015.
- > Although in 2016 fatal accidents of employees and contractors has been reduced by 75%, ENDESA laments the occurrence of a fatal accident (corresponding to a contractor).
- > The absenteeism index remains constant with respect to 2015.
- > The number of days lost of employees due to absence during the year has increased by 30%.

In order to continue promoting a reduction in the accident rate, ENDESA has established the goal of zero fatal accidents in the 2017-2019 period, in addition to maintaining a combined frequency index lower than 1.14 in 2019.

(More information on pages 215 to 221 of ENDESA's *Sustainability Report*).

3.5.6. Environmental sustainability

ENDESA considers environmental excellence to be an essential value of its business culture. With this in mind, it operates in a way that respects the environment and follows principles of sustainable development. It is also firmly committed to conservation and the sustainable use of the resources it uses. Therefore, ENDESA has established the target of reducing its environmental footprint in 2019 by more than 23%, with respect to the 2016 estimate. For this, the following targets have been set:

- > 28% reduction of specific CO₂ emissions in 2020, compared with 2005.
- > 26% reduction of specific SO₂ emissions in 2019, compared with 2016.
- > 15% reduction of specific NO_x emissions in 2019, compared with 2016.
- > Keep particle emissions below 35 mg/kWh per year in the 2017-2019 period.
- > Keep water consumption in electricity generation activity below 930 m³/MWh per year in the 2017-2019 period.
- > Keep the production of hazardous and non-hazardous waste in electricity generation activity below 45,000 tons per year in the 2017-2019 period.
- > Reuse of combustion products from the coal power plants (ash, slag and gypsum) above 18% per year in the 2017-2019 period.

- > Keep 100% of its generation and distribution facilities certified by ISO 14.001.

ENDESA makes a significant effort to achieve excellence in environmental management. Thus, during 2016, ENDESA's activities in environmental activities were 108 million euros, an increase of 28.6%, with respect to 2015. Accumulated environmental investment was 1,525 million euros.

ENDESA is committed to achieving excellence in environmental management of its business activity throughout the value chain. Therefore, 100% of the electricity generated and distributed by ENDESA in 2016 was certified by the International Standard ISO 14001.

ENDESA has a stringent supervision system for all its emissions to control the characteristics and volumes emitted. The Company complies with the parameters required by applicable legislation, implements technologies to minimise emissions and designs and applies corrective measures of the impacts generated. In this way, in 2016 ENDESA has reduced SO₂ and NO_x emissions by 28.45% and 7% compared with 2015, respectively.

Likewise, Integrated water management is one of ENDESA's greatest concerns. The main lines of action in this area focus on efficient consumption, water quality by controlling discharges and waste water, and reservoir management, assessing the ecological potential to provide shelter for birdlife, the possibilities to control invasive species and prevent the existence of dried up sections of regulated rivers. It should be highlighted that in 2016 ENDESA has reduced its water consumption in its electricity generation activity by more than 6.3%, compared with 2015, and has gone below the 1,000 m³/GWh limit set in the Sustainability Plan.

Furthermore, ENDESA has waste management and reduction systems in place, which are continually reviewed in order to detect and encourage improvements. As part of this process, in 2016 ENDESA has recovered 70% of the hazardous waste and 40% of the non-hazardous waste.

Finally, ENDESA has a Biodiversity Conservation Plan through which a total of 26 actions have been performed in 2016, including those from previous years and the new ones undertaken in 2016. ENDESA's biodiversity website provides

the public with all ENDESA's activity about study, management and conservation of biodiversity, in addition to other information and useful tools: www.endesabiodiversidad.com.)

(More information on pages 224 to 234 of ENDESA's *Sustainability Report*).

3.5.7. Responsible management of the supply chain

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

The Vendor Rating System assesses 4 sustainability criteria applicable depending on the purchase family the supplier belongs to and, therefore, their associated risk:

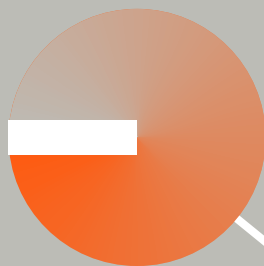
- > Conduct in line with the general principles of ENDESA Group's Code of Ethics.
- > Assessment of compliance with quality standards (ISO 9001).
- > Assessment of compliance with environmental standards (ISO 14001).
- > Assessment of compliance with Occupational Health and Safety standards (OHSAS 18001).

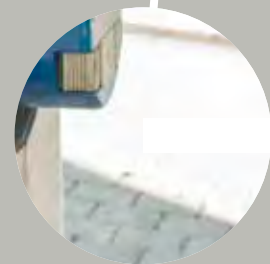
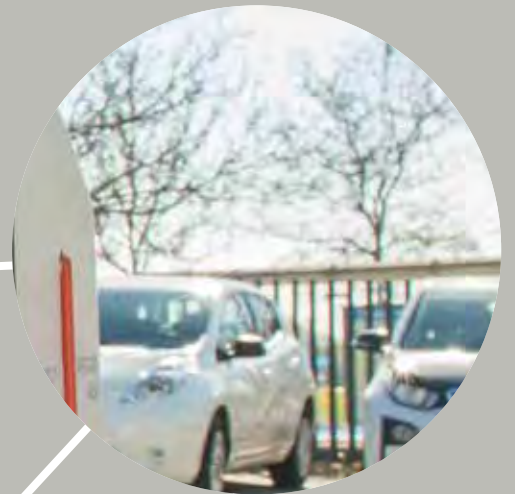
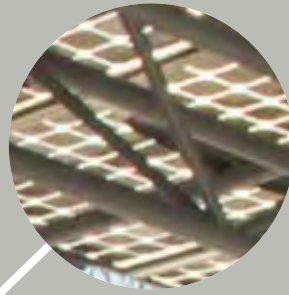
At the end of 2016, the Supplier rating system had been implemented in 185 purchase families, 120 global families (international rating) and 65 local families in ENDESA. In total, this system covered 65.1% of purchase volume made by ENDESA in 2016.

In order to promote continuous improvement in the responsible management of the supply chain, Enel Group, has

reviewed and improved the sustainability requirements established in the vendor rating process. Hence, we have updated the occupational safety, environmental and integrity requirements, plus a new human rights requirement. These requirements will come into force in 2017 and the aim is that in 2019 at least 60% of the ratings performed include environmental and human rights aspects, and at least 90% include occupational safety and health aspects.

(More information on pages 269 to 280 of ENDESA's *Sustainability Report*).





Research, technological
development and innovation



ENDESA and research, technology and innovation activities

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

ENDESA adopted this model to find quality ideas that would allow it to grow. ENDESA's purpose of entering this new culture is to develop innovative solutions that can transform the current energy model.

2016 saw continued development of the open innovation platform ENDESA Energy Challenges (endesaenergychallenges.com) with new challenges set to the global innovation community in the search for energy efficient products and services. It aims to challenge the most brilliant minds to look for solutions that enable creating the energy model for the future.

The platform's most relevant challenges during 2016 were as follows:

ENDESA DATATHON challenged the developers expert in Big Data throughout the world to demonstrate their creativity and innovative capacity to transform the future of energy in Spain.

The participants were given a dataset with simulated consumption information of 100,000 customers to develop the projects.

After 6 months of global competition, 40 participants submitted their proposals. The 3 best ideas were awarded after the selection made by an international jury.

(For more information about this event, please consult the website: <http://www.endesaenergychallenges.com/es/datathon/>).

BLOCKCHAIN LAB is the ideas laboratory to look for the best business proposals and models, using blockchain technology in applications for the energy world, with the aim of collaboratively developing new solutions to change the world.

(For more information about this event, please consult the website: <http://www.endesaenergychallenges.com/es/blockchain/>).

TEAM A was a project aimed at identifying innovative proposals and insights in digitisation and new products in collaboration with Pangea and a group of 8 high-potential young people with international recognition (some belonging to the Forbes 30 under 30 list), who provide their creativity and the millennial generation's standpoint to the proposals.

(For more information about this event, please consult the website: <http://www.endesaenergychallenges.com/ws/teamA/>).

Culture of innovation

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

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

90 MINUTES OF INNOVATION: internally disseminated initiative, which has the purpose of introducing new technological trends to ENDESA employees through innovation-based encounters.

During 2016, 3 editions were held dealing with matters such as collaborative economy, blockchain or the impact of artificial intelligence.

(For more information about this event, please consult the website: <http://www.endesaenergychallenges.com/es/90-minutes/>).

MY BEST FAILURE: digital platform that allows sharing cases of “constructive failure” among Enel Group employees as a means of learning, contributing to creating a culture without the fear of making mistakes. This enhances experimentation and the capacity to take on risks in the organisation.

EIDOS MARKET: internal idea management platform for the entire Enel Group. Through it, employees can make their proposals in addition to commenting on and assessing those of other colleagues, thus contributing to choosing the best ideas.

ENDESA and entrepreneurs

ENDESA has great interest in working with entrepreneurs and startups due to their capacity for disruptive innovation, the use they make of technology, their know-how and, above all, their speed at developing and taking products and services to the market in the shortest possible time.

The focus is on the end customer: residential customers, SMEs, companies and large customers, in all sectors, so that innovative solutions are sought in value added products and services, in new business models, in changes in the way we relate to our customers and improvements in our business processes.

With the ENDESA Energy Challenges platform, access has been established to the ENERGY FOR ENTREPRENEURS program as a direct channel of contact through which proposals from both startups and individual entrepreneurs can be received.

(For more information about this event, please consult the website: <http://www.endesaenergychallenges.com/es/entrepreneurs/>).

Furthermore, ENDESA takes part in events and initiatives to promote innovation and support entrepreneurs, such as Spain Start Up: The South Summit (the largest entrepreneur fair in southern Europe, among other events).

ENDESA, together with Enel and another two European partners, participated in the **INCENSE** accelerator (www.incense-accelerator.com) collaborating in the process to select and support emerging companies (ITC startups applied to energy efficiency) to shorten their development and maturity times as an organisation.

In total, the INCENSE program, that has a budget of approximately 8 million euros co-financed by the European Commission, offered its support to 42 startups with a non-returnable contribution of 150,000 euros for each one.

Technological projects

The following projects stand out for energy efficiency technologies development:

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

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

GRACIOSA: demo project for the roll-out of an autonomous innovative system in a real island environment, managing all the information generated by the grid in addition to the hourly price market. The project is financed with the assistance of funds granted by the CDTI.

GROWSMARTER: H2020 program project with the aim of developing and demonstrating 12 innovative solutions in the energy industry, mobility and ICT in 3 European cities, including industrial, suburban and city centre areas. ENDESA participates in developing the project in the city of Barcelona.

INFOENERGÍA: new online tool from ENDESA that provides information and energy advice on domestic electricity consumption to all consumers.

NEXO: smart-home solution via "IoT" devices that allows the user to control different aspects of his/her home, such as security, efficiency or comfort, using a mobile phone, tablet or PC.

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

Furthermore, during 2016, the roll-out was completed of 5 **FASTO** (Fast Together) 50 kW fast chargers in the city of Barcelona. This charger has the 3 types of connector currently on the market. In this way, any electric vehicle can charge its battery irrespective of the manufacturer.

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

ECAR (ENDESA self-charging club): pioneering initiative in Spain that supports e-mobility at the same time as transport and sustainable tourism, offering a fast-charging service through a network of charging points for electric vehicles available for any user. It has a mobile app, through which users can locate the charging points, have a guide on how to get to them, display their availability and charge.

The project started in Majorca, with the installation of 6 fast-charging points (50 kW which gives 80% of the car battery in 20 minutes) found 35 km apart to effectively cover requirements throughout the island. Currently, the service is available both for club customers and occasional users of rental cars of the companies belonging to the project. The energy supplied by all charging points is certified with 100% renewable sources.

CIRVE (Iberian Fast Charging Corridors): European project within the CEF 2015 call, where 8 institutions took part with the aim of rolling-out a network of 40 fast-charging points in urban and peri-urban areas, and boosting the existence of this type of infrastructure in Spain.

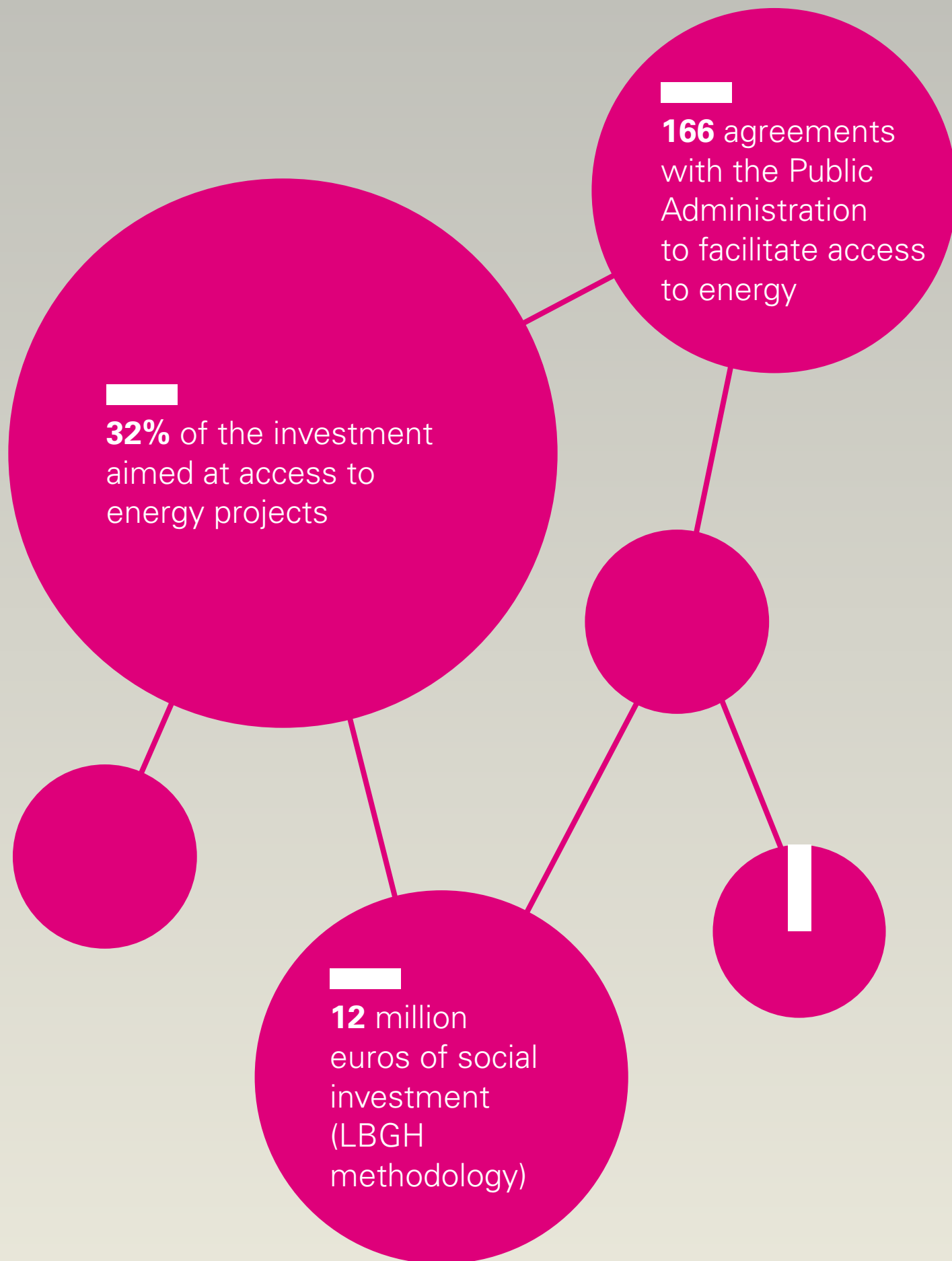
ENDESA leads the activity corresponding to the access of users with electric vehicle to the charging.

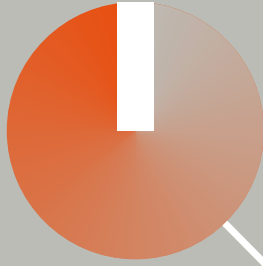
ULTRAFast: program with the aim of the development and installation of an ultra-fast charger (400 kW) to offer this service to all heavy e-vehicles in Barcelona, testing this technology and the associated operating systems with the first two 18-metre buses operated by TMB (Metropolitan Transport of Barcelona).

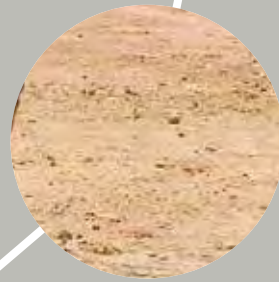
This system, which was launched in Barcelona during 2016, allows the bus battery to be charged to 80% in just 5 minutes, thus taking advantage of driver stops without having to modify route timetables.

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

(For more information about this event, please consult the website: <http://zeeus.eu/>).







People



1. ENDESA's workforce

ENDESA had 9,694 direct employees at 31 December 2016, a 3.1% decrease with respect to the previous year.

	2014	2015	2016	% variation
Final workforce				
Spain & Portugal	10,500	10,000	9,694	-3.1%
Total	10,500	10,000	9,694	-3.1%
Average workforce				
Spain & Portugal	10,760	10,243	9,819	-4.1%
Latin America	9,413	N/A	N/A	N/A
Total	20,173	10,243	9,819	-4.1%

ENDESA has a diverse workforce where most employees are between the ages of 35 and 54 years of age. In relation to gender composition, men represented 77.6% and women 22.4%.

Age		Antigüedad	
Age	% workforce	Age	% workforce
Under 28	1.6	Less than 10	29.2
28-34 years of age	10.2	10-19 years	28.1
35-44 years of age	32.9	20-29 years	22.7
45-54 years of age	33.2	30-34 years	13.2
55-59 years of age	18.8	Over 35 years	6.8
Over 60	3.4		

ENDESA offers its employees competitive job conditions, above the average in the markets where it is present. Proof of this is that 97.6% of contracts were permanent and practically the entire workforce worked full time (99.9%).

Furthermore, as a measure to promote employment and assist the access of young people to the job market, 154 people have joined the company through the Scholarship program in Spain and Portugal during 2016.



Plantilla de ENDESA

2. Management of leadership and talent

ENDESA continually seeks to identify and develop people's potential so that their performance can contribute to making the Company a benchmark in the sector. Under this perspective, ENDESA's value and performance, the Executive Model and Objectives-based Management System guarantee personal development based on merit and contribution.

2.1. Leadership model

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

- > **Trust.** We act competently, honestly and transparently to gain the trust of our colleagues, customers and external collaborators, valuing individual differences.
- > **Innovation.** We live and work with curiosity, we make an effort to go beyond the norm and overcome our fears to open energy to new uses, technologies and people. Learning both from what we get wrong and what we get right.
- > **Responsibility.** Each one of us is responsible for the group's success, at all levels. We place our energy at the service of people to improve their lives and make it more sustainable.
- > **Proactivity.** We take charge of our work in first person. We continually interpret the global scenarios and challenges to get ahead of changes, redefining the priorities if the context so requires.

In 2016, in ENDESA, 85.35% of employees received regular performance and professional development appraisals through any of the Company's appraisal systems.

2.2. Actions for talent development

ENDESA has continued with different professional development actions as it has been doing in recent years. We can highlight the individual knowledge interviews on people, coaching programs, mentoring and reverse mentoring, consulting for team development, workshops for skills development, business knowledge seminars and definition of succession plans.

These actions performed as a whole in 2016 meant an increase in the number of people involved in this type of programs greater than 30% with respect to the previous year.

In this way, ENDESA fulfilled the objective established 2015-2019 Sustainability Plan of increasing the employees that benefit from one of the development programs by at least 5%.

- > **Knowledge interviews.** In 2016, ENDESA has continued with the Conocer interview initiative, which consists of an interview performed by Human Resources experts with each one of the employees. The purpose is to know, first hand, their interests, aspirations and motivations. Before the interview, a self-profile is completed designed to discover, at that time, the profile of the individual interests. At the end of 2016, 9,102 people from the Company have had this interview.

- > **Coaching.** ENDESA has continued with its strong commitment to coaching. During 2016, 273 people have benefited from this type of individual or group actions. ENDESA has an internal coaching network which performs these processes.

Additionally, 141 people managers have taken part in the coaching workshops, compared to 127 in 2015. The subject matters covered have been feedback, communication, listening, creation of trust within the team, and coordination of actions, among others, which offer the managers coaching tools to transform the manager's profile in ENDESA.

Finally, we should mention that ENDESA reinforced an internal consulting line which gives ad hoc solutions to the needs posed by the businesses. This action is performed by internal development experts applying coaching techniques and tools.

- > **Reverse mentoring.** As part of the Digital Transformation Plan, ENDESA commenced a reverse mentoring plan, with the participation of 27 mentors and 30 mentees. It is an innovative initiative where the mentors, compared with conventional mentoring, are people who are younger than their mentees and provide their extensive experience in digital skills. This has been carried out in 3 areas of the company: marketing, systems and communication.
- > **Succession plans.** In 2016, ENDESA has continued designing succession plans to identify the successors of the positions of greatest responsibility (Top 200) and they have included the Group's executive positions. The succession plans identify both people prepared for success in the short-term and those in the medium to long-term. The identification is governed by segmentation criteria, giving relevance to the groups of women and young people. Specific development actions are also identified for the successors.
- > **Business knowledge seminars.** In 2016, one stage of the business knowledge initiative started in 2015 has closed. More than 830 people have taken part in this, added to the almost 900 that took part in 2015. The Business Knowledge Seminars are an innovative develop-

ment initiative which has a twofold objective: increasing the participants' knowledge and giving them a global and integrated view of the company's different areas of activity.

This initiative is structured in two phases. During the first, under the title of "Business Knowledge Seminar", the participants attend 9 speeches on two consecutive mornings, given by internal experts of reference, focusing on the most relevant aspects of ENDESA's activity. In the second phase, "Business Simulator", the participants face the challenge of managing an electricity producer and reseller in a deregulated market, through specific software that reproduces reality.

2.3. Training

3,150 training events were performed in ENDESA in 2016 with the participation of 8,728 employees. This activity enabled giving 444,063.4 hours training, reaching an average of 45.8 hours per employee, greater than the previous year at 40.1. To execute this activity, ENDESA invested 27.2 million euros (including cost of working hours), 4.34 million euros in direct costs of training activity.

ENDESA establishes its annual training plan to guarantee the adequate performance of the people within the organisation, in terms of safety and efficiency, in addition to encouraging the professional development of the workforce. Likewise, the 2016 Training Plan has been focussed on fulfilling the company's strategic objectives and enhancing its values of responsibility, innovation, proactivity and confidence.

During 2016, new internal training procedures have been implemented which have enabled better knowing the needs and priorities of people and thus achieving greater degree of efficiency. These improvements have been reflected in a general increase in training activity.

ENDESA's commitment to comply with current legislation in relation to each one of the areas where it operates includes numerous training actions, among which we can highlight

those relating to safety, criminal risk prevention, sustainability and the environment.

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

Regarding prevention of criminal risks, and after the initial campaign in 2015, new editions of the "Criminal Risks Prevention Model" have been launched, for the new incorporations, and by way of "recovery" for those who could not attend last year. This course, prescribed by the Audit area, covers the objective of publicising and raising awareness in people in the Company about the responsibilities and risks incurred in this area in performing typical duties, in order to prevent criminal risks.

ENDESA's Ethics Code and the Zero Tolerance to Corruption Plan involve training being given to further their knowledge in this area. In this regard, this year we can highlight the development and teaching of the online "EDE Code of Conduct" course, aimed at the people from Distribution.

The important process of transformation to a new energy model must include a strengthened commitment to sustainability as proposed by the Group's Open Power positioning. Hence, this year an innovative training program has been set in motion: "*Súmate al reto energético*" (Join the energy challenge). The objective is that people in ENDESA are aware, informed and trained about sustainability and the Company position in this matter. In this way, it aims that ENDESA em-

ployees can internalise the principles of sustainability in the area of action, both professional and private, and that with a change of energy behaviour they become a benchmark for society.

During 2016, environmental training has continued to be reinforced to fulfil the requirements established to renew the different ISO 14001 certificates and the Integrated Environmental, Energy and Indoor Environmental Quality Management System (SIGAEC) the company has.

Immersed in a digitisation environment, the training in digital transformation has meant an important chapter where more than 11,142 hours have been given through various methodologies such as: webinars, workshops, e-learning, in-person classes, etc. To do this the training program called e-talent has been designed which aims to generate a cultural and attitude change. Through the "viralisers" identified through the program an impact on 15% of the workforce has been generated.

Training in management, leadership and social skills has been transversally managed between the different businesses and support areas. It aims to improve the skills of the different categories and professional units, so that corporate culture is shared. During 2016, the investment has significantly increased exceeding 65,000 hours.

Another of ENDESA's fundamental commitments upheld throughout the years is technical training of employees. This allows their professional progress and gives them the necessary qualifications to perform their activity. Close to 379,000 hours of technical training have been given in 2016 in the Generation, Renewables, Distribution, Marketing, ICT, Procurement and Support Areas.

Belonging to a multinational group, ENDESA encourages language learning, mainly English and Italian, with a wide range of different types of language programs.

3. Attracting and retaining talent

ENDESA has carried out *Employer Branding* actions to improve the Company's positioning in the job market and continue to get known as an attractive place to work in. The focus in these recent years has been attracting young talent and, to do this, the Company has attended job fairs in different universities, international employment congresses and professional training centres. The presence in these forums has the aim of letting young people know the company's strong commitment to innovation and that it seeks to attract those profiles that fit the values of Enel Group: confidence, responsibility, innovation and proactivity.

Likewise, events were held such as an ideas competition between university and vocational training students, or the Shadowing initiative, which has allowed university students to spend the day with Company executives. The sponsorship of initiatives that promote the meeting of young talent from different countries, such as PangeaUnleash 2016, can be highlighted.

In a digital environment, communication and relationships with candidates change, for this reason the presence in social networks and other online platforms has strengthened and improved. Hence these channels contributed to the recruitment process.

In 2016, 154 qualified young people have joined the company through the Scholarship program. This Program enhances their employability and allows them to put the knowledge acquired during their time at university into practice and start their professional career. 20% of those people have joined the workforce at the end of their scholarship and actions are performed so that this percentage increases every year.

Additionally, ENDESA promotes internal promotion to cover vacancies, giving preference to professionals with outstanding performance of their duties. The selection process enhances the culture of diversity and meritocracy in addition to the Company values.

ENDESA not only performs internal selection processes in each country but, on certain occasions, international mobility through the exchange of professionals between countries is encouraged among professionals. This aspect has been enhanced since the Company joined the Enel Group.

3.1. Personnel selection

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

In 2016, 227 published internal selection processes were performed, involving close to 2,000 employees.

In cases where internal promotion is not possible, ENDESA contacts those people who have already had direct links with the Company's activities, through internships, scholarships or specific contracts. It may also consult various databases.

Where internal promotion is not possible the Company advertises on the job market. In 2016, more than 200 external processes were carried out in Spain and Portugal for permanent and temporary vacancies, which led to 556 new hires throughout the year. They have mainly looked for professional profiles, with commercial, technological and scientific/technological vocation.

In 2016, ENDESA has continued the updating of the "Join Us" space on the corporate website, which you can use to consult and apply for job offers. The change we have made allows simple and intuitive navigation and makes it easier for candidates to join.

3.2. International mobility

During 2016 ENDESA, as part of Enel Group, has continued with international mobility programs for employees with the aim of promoting development in international scenarios, expanding their overview of the business and their technical knowledge.

The international mobility programs are efficiently managed and promote a global career, thus enhancing the Group's multinational character. In 2016, ENDESA managed 64 expatriate employee processes and 11 impatriate processes. Additionally, a further 18 international mobility processes were managed in Spain within Enel Group, outside the perimeter of ENDESA, S.A.

In these processes, special attention is paid to the following aspects:

- > Guaranteeing the expatriate staff maintains the standard of living of the country of origin.
- > Compensating for the "drawbacks" related to the expatriation.
- > Offering a significant benefits package regarding wellbeing.

Within the framework of complying with the diversity policy, special attention is paid to integration of the expatriates in the destination, by assigning a tutor/mentor during the expatriation period.

3.3. Remuneration policy

ENDESA's remuneration policy is in line with the national and international legislation regarding Corporate Governance. Its main objective is to retain, attract and motivate the best professionals, guaranteeing internal equality and external competition is preserved and establishing remuneration in

accordance with the best market practices. In this regard, ENDESA's remuneration policy supervises that there is competitive and equal remuneration of its employees. The remuneration is determined by analysing the external competitiveness based on market salary surveys, using a job appraisal methodology with criteria from similar companies in terms of employee numbers and turnover.

Likewise, ENDESA's remuneration policy values the principles of meritocracy. ENDESA's meritocracy policy defines the management criteria for the salary adjustments based on the merit of people as differentiating criterion avoiding automatic adjustment due to seniority. In 2016, as in previous years, meritocracy policies have been applied for the groups of executives, pre-executives and agreement personnel. These processes have the chief purpose of awarding people's effort and their commitment to the Company, assigning salary adjustments in differentiated manner, whilst guaranteeing the minimums established in the Agreement. This policy, furthermore, enhances the role of the people manager in people recognition.

ENDESA's staff remuneration policy, regulated in the 4th Framework Agreement, establishes remuneration conditions for employees much higher than the basic salary established in Spain and Portugal and also includes the commitment of increasing the annual salary by 1% in 2016 and 2017. Additional mechanisms are also established for salary increase related to the Company's increase in EBIDTA, of the Company which may involve salary rises up to 2%, as well as an increase in efficiency payment.

- > **Flexible remuneration.** In 2016, ENDESA implemented the flexible remuneration for all employees. This is a new compensation tool that allows each employee to decide, voluntarily, how to receive part of their monetary remuneration so that it adapts to their personal and family needs at any given time, taking advantage of the tax advantages of certain products and services. The products included in ENDESA's Flexible Remuneration Plan are: Health Insurance, Childcare vouchers, Meal vouchers, Transport vouchers and training.
- > **Overtime.** Furthermore, through the different Collective Agreements, the Company Management and the Company Representation agree to the need to reduce

overtime to an essential minimum, by establishing work organisation tools and systems that enable a permanent improvement in the organisation's efficiency, respecting in all cases current legislation and, in particular the provisions of Royal Decree 1561/1995, of 21 September 1995. Thus, the Collective Agreement establishes that, should overtime be necessary, employees can choose between mechanisms of financial compensation or mechanisms of mixed compensation (financial and hours of rest).

> **Salary gap.** To perform a complete analysis of the salary gap between men and women, it is necessary to consider, in addition to the workforce composition, the salary evolution of the new members joining the Company at the different times in its history. Until 2000, before signing the 1st Framework agreement, the salaries were defined based on the different collective agreements. After 2000, with the signing of the 1st Framework agreement, homogeneous salary tables were defined for all new members in ENDESA; after 2013 with the signing of the 4th Framework Agreement, salary tables were implemented more in line with market practices for external recruitments. This effect, together with evolution of

the workforce and the Company's current remuneration policies (meritocracy), indicate to us that the salary gap is narrowing, although there is still some way to go.

3.4. Pensions

All employees of ENDESA Group companies are members of the Pension Plan unless they expressly renounce this. After signing the first Framework Agreement, on 25 October 2000, a defined-contribution pension system was defined for retirement, and defined benefits for death or incapacity.

A shared company-employee contribution system was established, with a maximum of 6% of the pensionable salary paid into the pension plan by the company and 3% of this same salary by for the employee. ENDESA's pension plans are administered in accordance with the general limits of management and risk assumption laid down in the respective current legislations applicable in Spain. ENDESA's pension plan is operated by a management company that takes into account socially responsible investment criteria.

4. Social action

ENDESA continues supporting corporate volunteering among its employees with a firm commitment to develop those communities where it operates and contributes in the social, environmental, educational and cultural spheres of the community.

ENDESA, as founding member of Voluntare, has continued in 2016 to support this international initiative to promote corporate volunteering, formed by companies and entities of the third sector.

In 2016, corporate volunteering initiatives were promoted due to the good acceptance among employees and the positive impact they generate on the community where ENDESA operates. The Job launcher, energy volunteering, Company Solidarity day and the Coach project are some, for example, of the actions performed in Spain with ENDESA employee participation.

ENDESA also seeks to provide a healthy and well-balanced working environment in which personal respect and consideration prevail and professional development opportunities are offered based on merit and ability.

This responsible management, which ENDESA has brought together for some time in the initiatives of the Corporate Social Responsibility Plan in Human Resources, Senda Plan, has been reinforced with the implementation in 2016 of initiatives included in the Group's Diversity and Inclusion Policy.

In 2016, various activities were performed in each of the dimensions forming part of the Senda Plan:

- > **Diversity and equal opportunities.** ENDESA is firmly committed to the principles of gender equality and non-discrimination in the workplace. The aim is to be a company which respects and manages differences among its employees, guaranteeing equal treatment and opportunities. In 2016, the actions foreseen in the Agreement signed with the Ministry of Health, Social Services and Equality have been implemented in the areas of selection, promotion and conciliation, among others, and the Equality seal granted by this Ministry has been renewed.
- > **Conciliation and flexibility.** ENDESA promote different lines of action to reinforce a flexible working environment and seeks to enable its employees to strike a balance between their personal, family and professional lives. ENDESA continues performing actions to encourage a culture of promoting and facilitating conciliation.
- > **Integration of disabled persons and people at risk of social exclusion.** ENDESA performs actions to integrate disabled people focussing on directly hiring people with disabilities and indirectly through purchasing goods and services from special employment centres.
- > **Promotion of volunteering.** ENDESA facilitates and encourages corporate volunteering among its employees. It is committed to the development of the communities in which it operates and contributes to their social, environmental, educational, and cultural development of the community.

5. Social dialogue

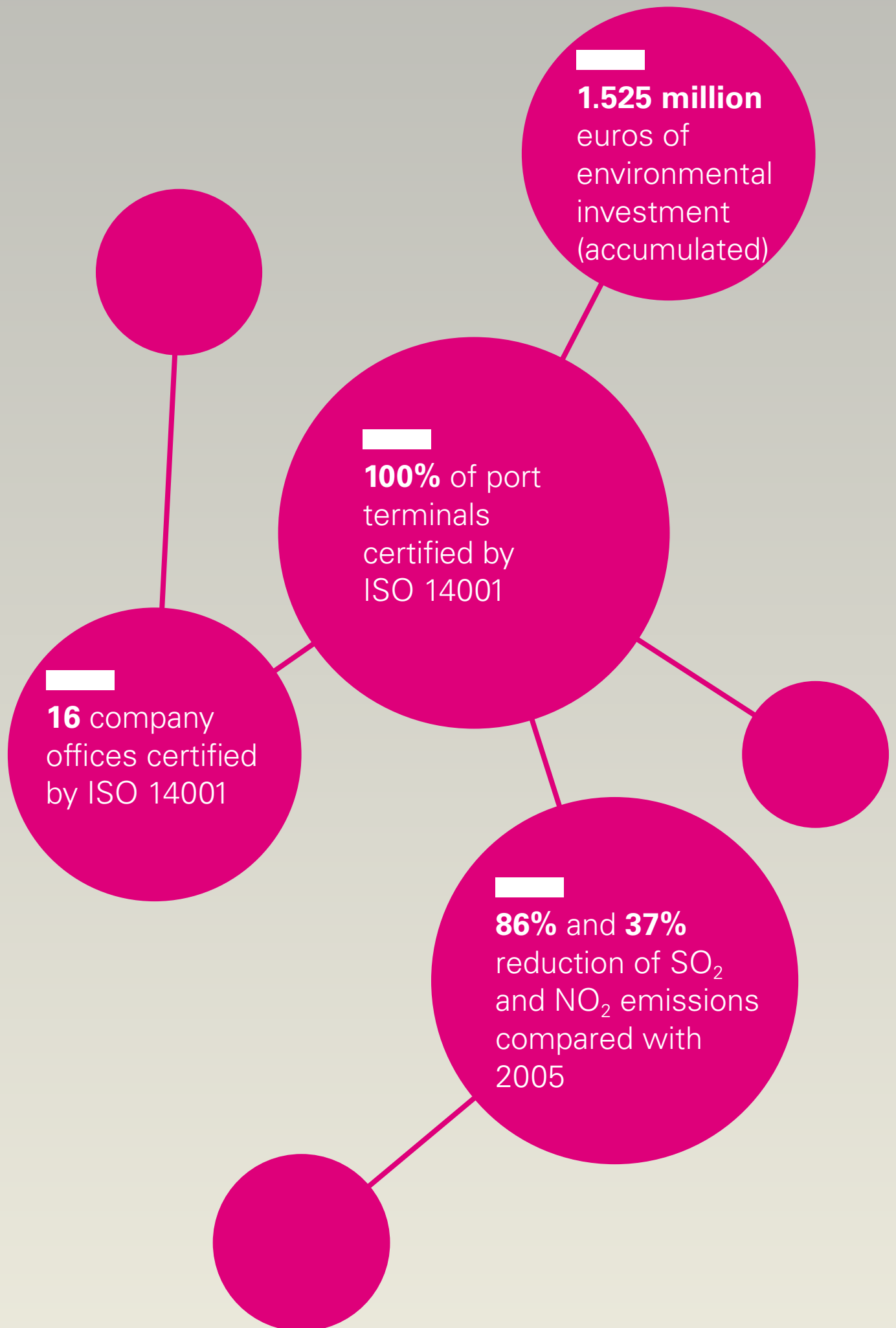
In Spain and Portugal there are 4 collective agreements in force at the end of 2016, which affect 9,103 people and cover 90.03% of the workforce.

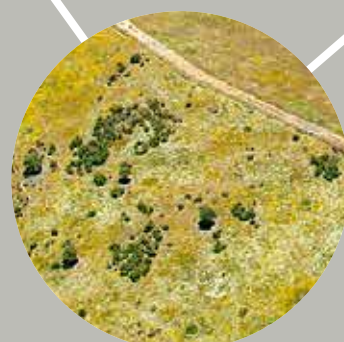
Current Spanish employment legislation, as well as ENDESA's labour legislation in Spain (4th Collective Framework Agreement of ENDESA, Framework Agreement of Guarantees for ENDESA and its electricity subsidiaries domiciled in Spain, Voluntary Suspension Agreement), establishes the criteria that must operate in the event that corporate reorganisation operations occur (Chapter III of the Framework Agreement of Guarantees). It also contemplates that the Company Representation will be notified with at least 30 days' notice before the coming into force of the corporate reorganisation operations.

The most relevant activities within the area of collective bargaining in 2016 have been:

- > Negotiation and Agreement on the transfer of workers between different companies.
- > Negotiation on reorganisation of Commercial Cycle.
- > Negotiation on the new organisation of the ENDESA Distribución Eléctrica LV-MV grid organisation.
- > Agreement for the inclusion of ENDESA Servicios in the functional scope of the 4th Collective Framework Agreement.

Within ENDESA, in Spain it should be highlighted that the negotiation of ENDESA's 5th Collective Framework Agreement shall begin on 1 July 2017. Spain has formed part of the ILO since it was established in 1919. ENDESA's conventional legislation complies with the Agreements in force ratified by Spain.







Responsible relationship with the communities

An inseparable part of ENDESA's work is to actively contribute to the progress of those communities and environments where it, through projects and initiatives that promote social development. This activity is one of the cornerstones of ENDESA's 2016-2019 Sustainability Plan, following the strategy of integration of sustainability in the business process, through a "Creating Shared Value" (CSV) approach. This enables legitimising the business and reinforcing its sustainability, generating roots in the communi-

ty and promoting social progress in the local environment where it operates.

This activity is considered a strategic priority of the Company, that is incorporated in all areas of the business and enhances social inclusion in the company, minimises risks, improves reputation, brings the company closer to its stakeholders and incorporates their demands.

1. Action under the shared value approach

ENDESA's commitment to the development of the communities where it operates is of promoting projects and operations which help improve the economic, environmental and social conditions of its environment whilst improving Company competitiveness. To do this, it is necessary to effectively and efficiently make use of and optimise the capabilities and skills the company has from an integrated standpoint and generate measurable benefits in society responding to current or future requirements.

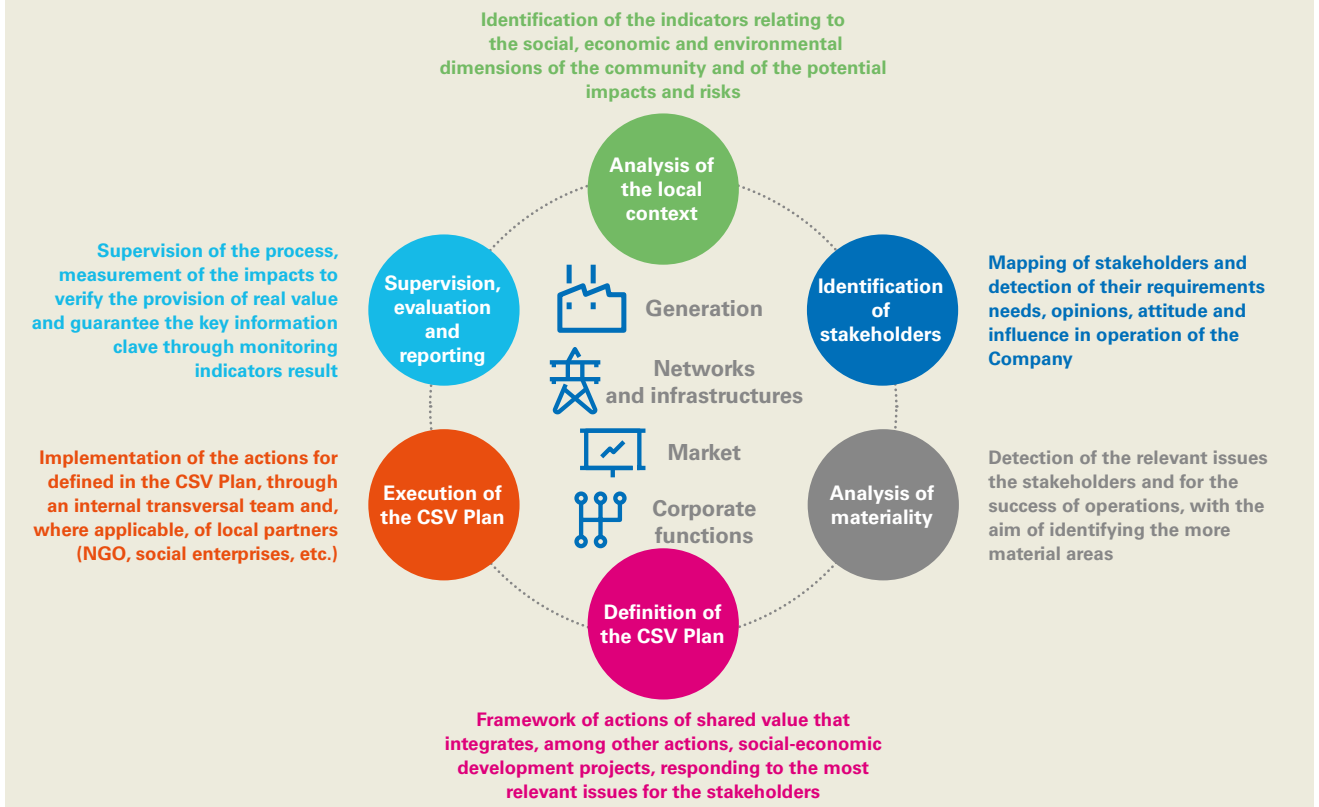
ENDESA is in the midst of the implementation process of the Creating shared value approach, as a sustainability integration tool in the business strategy and operations. To do this it applies a thorough and stringent methodology of accompanying the businesses in all phases of the value chain throughout the useful life of the assets,

which allows incorporating social and also environmental variables in decision-making. The CSV Plans are obtained as an end product of this methodology. These are a set of action programs and initiatives aimed at improving the relationship with the local environment of the asset accompanied, and which require being constantly reviewed and updated, aligning Company objectives with its stakeholders' priorities.

The actions and projects for creating shared value (CSV), must be linked to Enel's general strategy, to the UN Sustainable Development Goals (SDG), to circular economy solutions and to the inclusive social approach, with the aim of providing a shared value for the communities and for the Company.

CSV - Creating shared value

The way of integrating sustainability in the business



There are currently 13 CSV plans operating in ENDESA's business, which are in different development phases: 11 correspond to thermal generation installations, one to renewable generation installation and, finally, one to the infrastructure and grids area.

Progressive implementation of this methodology is being performed, and it is planned to gradually extend it to all Company areas, assets and operations in the coming years.

2. Categorisation of sustainability projects

ENDESA's sustainability projects and initiatives are implemented in the different territories where the Company operates and by each of the Company's Business areas, together with its two foundations, the ENDESA Foundation and the Sevillana ENDESA Foundation. The management of these projects is coordinated by the Sustainability Department and aligned with the criteria, objectives and guidelines provided by the joint action framework at the level of Enel Group, in addition to the material issues in the social area that are required by our stakeholders.

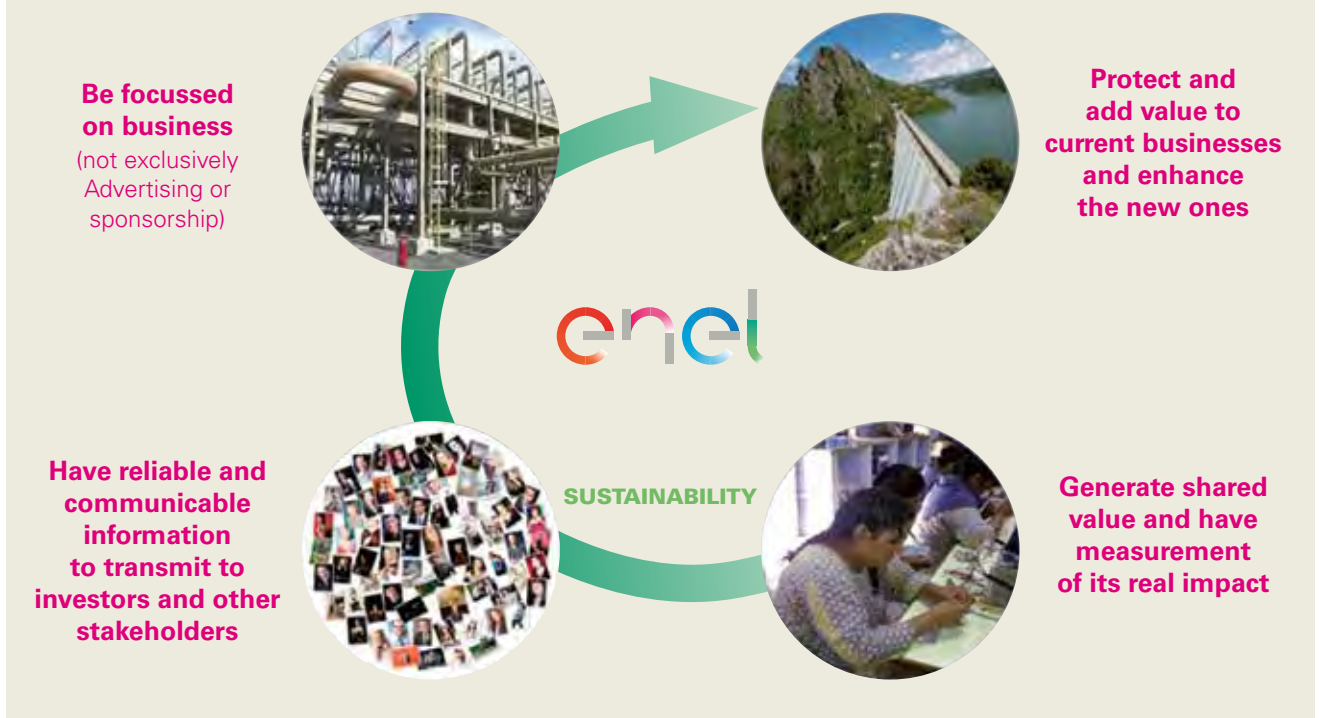
As regards the categorisation of projects, 3 project groups are established that have an impact on communities, as is a fourth group, concerning internal operating efficiency.

This categorisation seeks the improvement of project management to align them with the Group's materiality and priorities according to its commitments to the UN Sustainable Development Goals (SDG), through their monitoring and tracking, in addition to the measurement and enhancing thereof.

Sustainability projects. Categorisation of the projects/initiatives



The sustainability projects must:



The basic motivation that guides ENDESA's social contribution is:

- > Providing business activities with social value, by creating relationships of trust which, in the long term, generate support in communities and encourage social progress.
- > Supplementing the Company's function as a basic service provider, facilitating the access to electricity of the most susceptible groups.
- > Providing a response to the needs of the main stakeholder groups, on both a local and global level, with whom the Company interacts.
- > Enhancing, by means of its contribution, the generation of wealth and the progress of society.
- > Concentrate particularly on susceptible groups (disadvantaged families, persons under vulnerable circumstances, childhood and youth, new entrepreneurs, etc.).
- > Are managed in cooperation with the social representatives of the communities participating in the project.
- > Have continuity in time and potential to replicate successful actions.
- > Provide benefits for society and returns for the company which are verifiable and measurable.
- > Are systematically, transparently reportable, and are appropriately transmitted to society.

For this reason, the shared-value social projects will be projects that:

- > Accompany the business, generating wealth for the local community.
- > Respond to the material issues of the social sphere of our stakeholders (furtherance of employment, fuel poverty, training, biodiversity, etc.).

The Iberian territorial divisions and their Sustainability Committees, as well as ENDESA's various business lines and its Foundations, have launched projects and initiatives in accordance with the above criteria, coordinated and monitored by the Sustainability Division, which in turn guarantees coherence of priorities throughout the Enel Group.

3. ENDESA's investment in the community

London Benchmarking Group LBG Spain



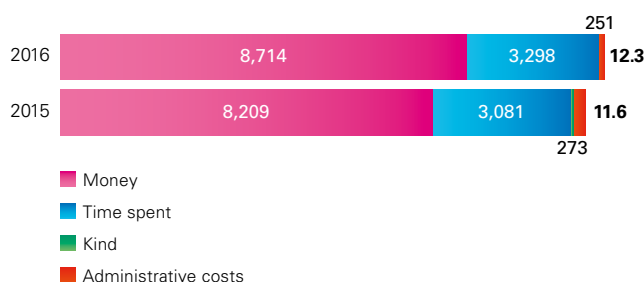
ENDESA has belonged to the work-group of the London Benchmarking Group (LBG) Spain since 2008. This methodology enables the measurement, management, assessment and communication of the contributions, achievements and impacts of the Company's investment in social development in society.

For the eighth year running, ENDESA's report on social activities has been presented according to LBG methodology.

In 2016, and according to LBG methodology, ENDESA has provided 12.3 million euros in social investment allocated to the communities in the areas where it operates, of which 8.7 million are monetary contributions or in kind. Of the total of this investment, 1.7 million euros are distributed through the ENDESA Foundations, 4.6 million euros through the transversal areas and regional centres and 2.4 million through the Company's different business lines.

The trend of LBG investment in ENDESA in 2016 is a slight rise, 6% with respect to 2015 (12.3 million euros in 2016 compared with 11.6 million euros in 2015). Furthermore, this

Evolution of the investment in social development in Spain (in thousands of euros)



investment has benefitted 20% more people (888,508 direct beneficiaries) thanks to the optimisation, the use of synergies, the greater involvement of employees, the minimisation of accessory costs and improved management.

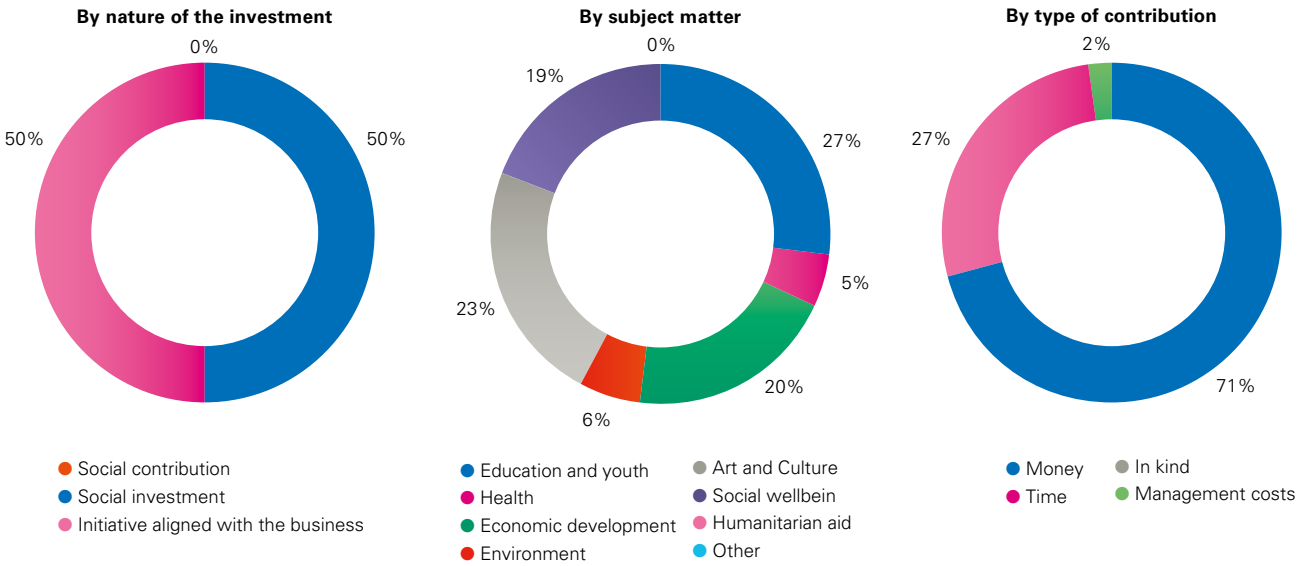
The number of projects has been reduced from 224 in 2015 to 200 in 2016, continuing the trend of focussing the management on fewer but better optimised activities and with a greater level of impact. The social investment level for 2016, considering only the financial contribution and in kind, has meant 0.6% with respect to the net profit of continuous activities attributable to ENDESA shareholders, a 1% decrease with respect to 2015 (0.7%). Nevertheless, this ratio cannot be compared to the previous year, since in 2016 there was a change in the Company perimeter due to the incorporation of Enel Green Power España in ENDESA since the month of July.

With respect to project type, the LBG methodology distinguishes between social investment initiatives and

ENDESA's investment in 2016 to social development projects (thousands of euros)

By area	Money + kind	Time spent	Administrative costs	Total
Transversal areas and regional centres	4,571	1,009	77	5,657
ENDESA Foundations	1,711	964	73	2,748
Business Lines	2,432	1,325	101	3,858
Total ENDESA	8,714	3,298	251	12,263

ENDESA's contribution in 2016 to social development projects



business-aligned initiatives. In 2016, a balance has been achieved between both categories, with 6 million-euros investment in each one (45% of social investment and 57% in business-aligned initiatives in 2015), which in turn reflects the long-term strategic commitment to communities where it operates under the creating shared value approach between the Company and the local community.

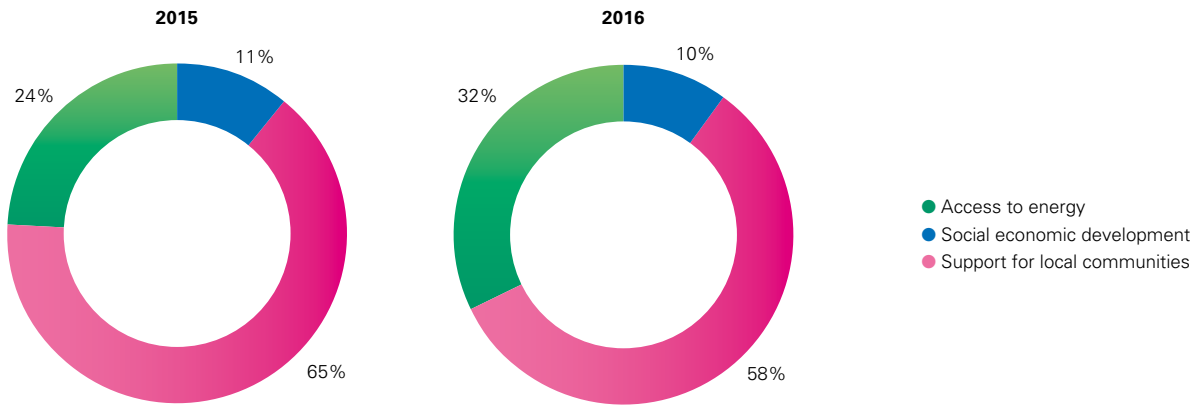
From a subject matter standpoint, according to LBG classification, it should be highlighted that 27% of the investment has gone to education and youth initiatives, 23% to art and culture, 20% in economic development projects and 19% in projects to promote social wellbeing.

Furthermore, if we follow the Enel project classification (explained in the previous section), the distribution of the financial investment (money + kind) has been the following:

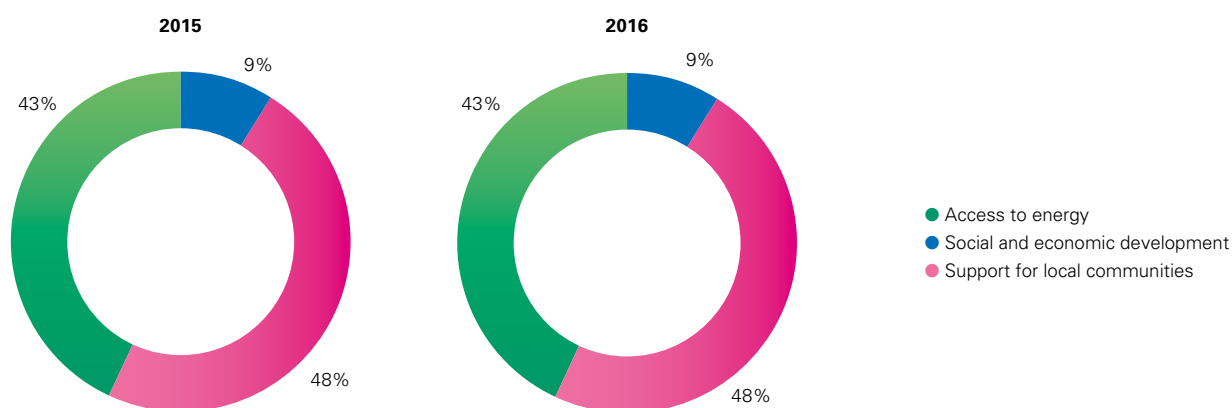
If we add to the above, and always following the LBG methodology, the investment in management time and administrative costs, the distribution of the contributions changes with respect to the above: the category with greatest contribution continues to be local community support, with 48%, followed by access to energy projects with 43%.

In 2016, there was collaboration with a total of 1,398 public and private institutions to perform 200 social projects that have been managed. 47% have been primary and secondary schools, 14% public institutions and 10% NGOs and social foundations.

Financial investment: money + kind



Total LBG contribution: money + kind + time + management costs



In 2016, it is estimated that there have been a total of 888,508 direct beneficiaries from 200 social projects performed by ENDESA, 20% higher than the previous year (737,002 in 2015). From these, 46% correspond to local communities as a consequence of the creating shared value objective where the Company operates. Next, come the projects aimed at empowering women with 16% of beneficiaries. Thirdly, with 9% of the total, are children and teenagers and with 7% the people in a vulnerable situation with over 65,000 beneficiaries.

4. Sustainability projects

4.1. Access to energy projects

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

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

In 2016, and according to LBG methodology, ENDESA has invested more than 5.2 million euros in social projects in this area, with the management of 33 initiatives which have benefitted more than 240,000 people. The most relevant are:

- > **Agreements signed against energy poverty.** ENDESA deals with a line of action that gives response to this social problem. The Company was pioneering in signing agreements with town councils, provincial councils, autonomous communities and public bodies to guarantee the supply to vulnerable families, suitably accredited by the social services and who are in a default situation. In 2016, the number of agreements in force has increased to 84%, going from 90 in 2015 to 166 in 2016. Thanks to this, around 39,699 contracts have benefitted from these actions, favourably managing more than 124,000 bills. Furthermore, thanks to the agreements reached throughout Spanish geography, ENDESA can cover in this regard more than 10 million homes from 26 Spanish provinces.
- > **Energy volunteering:** The Energy Volunteering program is a social development program in the field of energy, carried out jointly by ENDESA and ECODES (Ecology and Development Foundation) aimed at homes which are in

a situation of fuel poverty, and with action on two levels: on the one hand, these families are given advice on how to optimise their electricity bill and reduce energy consumption and on the other, situations of risk in the electrical installations are identified, which are later corrected by certified installers. As a result of the actions in Barcelona and Zaragoza, interventions have been performed in 45 homes with the aid of 41 volunteers, and a total of 241 people have benefitted (both directly and indirectly) in both territories. This type of actions will continue in other regions in 2017.

- > **ENDESA Educa.** An educational initiative whose goal is to create a new social conscience based on sustainability and energy efficiency. It includes visits to electrical facilities, guided activities at ENDESA's Information Centres, workshops given at the schools themselves, and online activities via www.ENDESAeduc.com. In 2016, more than 45,000 participants from 605 educational centres have benefitted.
- > **Twenergy.** A Spanish-language reference website on energy efficiency, promoting the responsible consumption of energy, providing users with solutions and tools to enable them to be more efficient in their energy consumption. It is also committed to giving a voice to professionals of energy efficiency via articles, digital meetings, and by supporting different industry initiatives. At the end of 2016, Twenergy has more than 53,000 registered users, more than 140,000 followers in social networks, with over 17 million visits, since it started in 2009.

4.2. Projects for social-economic development of communities

This includes non-energy-related projects for the furtherance of employment, development of infrastructures, transfer of abilities and skills and support for local business activities.

In 2016, the Company has invested more than 825,000 euros in this type of initiatives, representing 10% of social investment with the management of 31 projects that have benefitted more than 41,000 people. Among the most relevant projects performed we can highlight the **INCENSE (Internet Cleantech ENablers Spark) program** which, co-financed by the European Commission within the FIWARE Accelerate programme, has the aim of furthering innovation and high-technology specialised employment in the European energy sector, accelerating the development of clean technology-related products and services.

4.3. Local community support projects

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

When performing these actions, ENDESA bases itself on the knowledge and sensitivity of each local reality and collaborates with the main social organisations in the environment where it operates, getting support from the territorial units. This axis of action was the largest made by ENDESA, arising from the needs demonstrated by our environment, with 58% of the budget corresponding to more than 5 million euros, 136 projects managed and more than 606,000 beneficiaries.

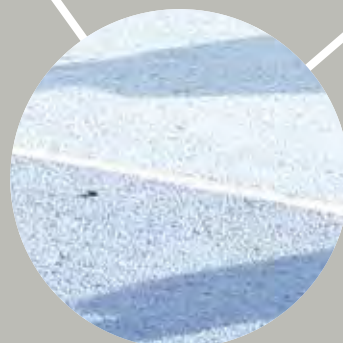
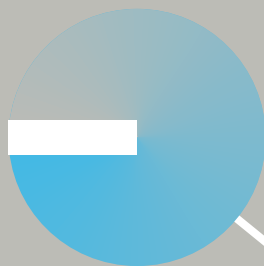
Some examples are:

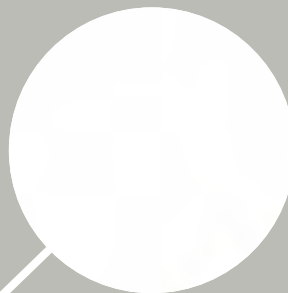
- > **Promotion of young talent with high abilities and few resources:** program for training and accompanying students with talent performed in 4 schools of the ENDESA Educational network of the Escuelas Profesionales de la Sagrada Familia (SAFA) Foundation: Andújar, El Puerto de Santa María, Écija and Úbeda. It has 203 direct and 2,291 indirect beneficiaries.
- > **Resource collection campaigns and assistance to disadvantaged groups:** collection of resources and food in collaboration with different NGOs. Among these we highlight the Solidary Christmas Concert in Mangualde (Portugal), where 200 baskets of essential commodities were given to families in need. Also, during Family Day in Barcelona school material was collected to support the program "Promotion of the school success" of the Red Cross. 250 kg of food was also collected in the East Division of Catalonia for people in a vulnerable situation of the region. Finally, several campaigns to collect toys and children's food have been carried out in the Canary Islands, Madrid and Catalonia, with more than 2,300 children benefitting because of these initiatives.
- > **Projects to attend to people with disabilities:** As an example, we can highlight collaboration with the Seville Autism Association; with Atades, Association to care for people with Intellectual Disabilities; Osonament, which promotes the social and professional insertion of people with mental health problems or the agreement with the Randstad Foundation for the employment of disabled professionals in the Canary Islands. Likewise, in 2016 the agreement has been renewed for the sports group of disabled people Econy, which has the aim of contributing to the consolidation and dissemination of wheelchair basketball playing, of which this group is one of the biggest supporters in the Canary Islands.
- > **Environment and Biodiversity projects:** projects which, on a voluntary basis by the Company, encourage the disclosure, preservation, recycling, regeneration and improvement of the environment, in general, and of biodiversity in particular, for the preservation and improvement of community environments. In 2016, ENDESA has allocated 6% of the total of its social investment to these projects. Noteworthy initiatives include those that inform on environmental and biodiversity issues, birdlife and other species protection programs and the regeneration of natural spaces. In total, the programs received an investment of 534,000 euros from ENDESA.

444.063 hours
of training in
3,150 training
events

The investment
in educational
projects
exceeds
973,000 euros

9,694 employees
contracted in
workforce
(2,168 women
and 7,526 men)





Appendices

ENDESA's generation facilities

Parque de generación de ENDESA en España a 31/12/2016

	Company of origin	Municipality or Autonomous Community	Type of Oper	No. of Units	Total power (MW)	% ENDESA	Power consolidable in ENDESA
MAINLAND SYSTEM							
Conventional thermal power plants							
Coal							
Compostilla ¹	ENDESA	Cubillos del Sil-León	H-A	3	1,052	100.0	1,052
Anllares	33.33% ENDESA	Anllares-León	H-A	1	365	33.33	122
As Pontes	ENDESA	As Pontes-La Coruña	CI	4	1,469	100.0	1,469
Teruel	ENDESA	Andorra-Teruel	LN	3	1,101	100.0	1,101
Litoral	66.66% END-33.33% SEV	Carboneras-Almería	CI	2	1,159	100.0	1,159
Total Coal				13	5,146		4,903
Conventional Fuel-Gas							
Foix ²	TERBESA (G. ENHER)	Cubelles-Barcelona	F-GN	0	0	100.0	0
Combined cycle gas							
San Roque 2		San Roque-Cádiz	CCTG	1	408	100.0	408
Besós 3		Besós-Barcelona	CCTG	1	419	100.0	419
Besós 5		Besós-Barcelona	CCTG	3	873	100.0	873
Colón 4		Huelva	CCTG	1	398	100.0	398
As Pontes		As Pontes-La Coruña	CCTG	3	870	100.0	870
Total Fuel-Gas				9	2,968		2,968
Total Conventional Thermal				22	8,114		7,871
Nuclear							
Ascó I	40% END - 60% FEC	Ascó-Tarragona	N	1	1,033	100.0	1,033
Ascó II	40% END - 45% FEC	Ascó-Tarragona	N	1	1,027	85.0	873
Vandellós II	72% ENDESA	Vandellós-Tarragona	N	1	1,087	72.0	783
Garroña ³	100% NUCLENOR	St.ª M.ª Garroña-Burgos	N	1	466	50.0	0
Almaraz I	36% SEVILLANA	Almaraz-Cáceres	N	1	1,049	36.0	378
Almaraz II	36% SEVILLANA	Almaraz-Cáceres	N	1	1,044	36.0	376
Trillo ³	2% NUCLENOR	Trillo-Guadalajara	N	1	1,066	1.0	0
Total Thermal-nuclear				7	6,772		3,443
Hydroelectric							
Conventional hydroelectric							
U. de Prod. Hidr. Noroeste			H		749	100.0	749
U. de Prod. Hidr. Ebro-Pirineos			H		1,992	100.0	1,992
U. de Prod. Hidr. Sur			H		673	100.0	673
Pumped generation							
U. de Prod. Hidr. Ebro-Pirineos			H		760	100.0	760
U. de Prod. Hidr. Sur			H		590	100.0	590
Total Hydroelectric					4,764		4,764
TOTAL MAINLAND					19,652		16,078

	Company of origin	Municipality or Autonomous Community	Type of Oper	No. of Units	Total power (MW)	% ENDESA	Power consolidable in ENDESA
Balearic Islands							
Coal							
Alcudia	GESA	Mallorca	CI	4	510	100.0	510
Fuel-Gas							
Alcudia	GESA	Mallorca	G	2	75	100.0	75
Son Reus	GESA	Mallorca	G	11	612	100.0	612
Ca's Tresorer	GESA	Mallorca	G	6	473	100.0	473
Mahón	GESA	Menorca	F-G	8	270	100.0	270
Ibiza	GESA	Ibiza	F-G	16	366	100.0	366
Formentera	GESA	Formentera	G	1	14	100.0	14
Total Balearic Islands					2,320		2,320
Canary Islands							
Fuel-Gas							
Jinamar	UNELCO	Gran Canaria	F-G	10	302	100.0	302
Barranco de Tirajana	UNELCO	Gran Canaria	F-G	10	697	100.0	697
Candelaria ⁴	UNELCO	Tenerife	F-G	7	221	100.0	221
Granadilla ⁵	UNELCO	Tenerife	F-G	14	797	100.0	797
Punta Grande	UNELCO	Lanzarote	D-G	13	231	100.0	231
Las Salinas	UNELCO	Fuerteventura	D-G	12	187	100.0	187
El Palmar	UNELCO	La Gomera	D	10	23	100.0	23
Llanos Blancos	UNELCO	El Hierro	D	9	13	100.0	13
Los Guinchos	UNELCO	La Palma	D-G	11	108	100.0	108
Hydroelectric	UNELCO	La Palma	H	1	1	100.0	1
Total Canary Islands					2,580		2,580
Ceuta and Melilla							
Ceuta	ENDESA	Ceuta	F-D	10	99	100.0	99
Melilla	ENDESA	Melilla	F-G	8	85	100.0	85
Total Ceuta and Melilla					184		184
Total Island and Non-mainland					5,084		5,084

	Company of origin	Municipality or Autonomous Community	Type of Oper	No. of Units	Total power (MW) ⁷	% ENDESA	Power consolidable in ENDESA
RENEWABLE ENERGIES							
Mini-hydroelectric							
Izbor	Enel Green Power España	Andalusia	H	1	12.0		12.0
Graus	Enel Green Power España	Aragon	H	1	2.2		2.2
Casas	Enel Green Power España	Catalonia	H	1	0.1		0.1
Túnel de Vielha	Enel Green Power España	Catalonia	H	1	0.5		0.5
Ch Los Batanes	Enel Green Power España	Castile and Leon	H	1	0.2		0.2
Ch Rosarito	Enel Green Power España	Castile and Leon	H	1	4.9		4.9
Ch Villameca	Enel Green Power España	Castile and Leon	H	1	0.5		0.5
Ch Anillo	Enel Green Power España	Galicia	H	1	7.9		7.9
Ch Arroibar	Enel Green Power España	Galicia	H	1	14.8		14.8
Ch San Juan de Muro	Enel Green Power España	Galicia	H	1	0.1		0.1
Total Mini-hydroelectric				10	43.2		43.2
Wind power							
European wind power	Enel Green Power España	Andalusia	E	1	6.0		6.0
Los Lances	Enel Green Power España	Andalusia	E	1	10.7		10.7
Pesur	Enel Green Power España	Andalusia	E	1	42.0		42.0
EEE	Enel Green Power España	Andalusia	E	1	32.0		32.0
W.F. Granujales	Enel Green Power España	Andalusia	E	1	24.0		24.0
W.F. de Enix	Enel Green Power España	Andalusia	E	1	13.2		13.2
W.F. Los Barrancos	Enel Green Power España	Andalusia	E	1	20.0		20.0
W.F. Menaute	Enel Green Power España	Andalusia	E	1	37.4		37.4
Angosturas	Enel Green Power España	Andalusia	E	1	36.0		36.0
Madroñales	Enel Green Power España	Andalusia	E	1	34.0		34.0
W.F. Padul	Enel Green Power España	Andalusia	E	1	18.0		18.0
Acampo	Enel Green Power España	Aragon	E	1	5.4		5.4
Aguilón	Enel Green Power España	Aragon	E	1	50.0		50.0
Almarén	Enel Green Power España	Aragon	E	1	11.9		11.9
Aragon	Enel Green Power España	Aragon	E	1	5.3		5.3
El Puerto-Trinidad	Enel Green Power España	Aragon	E	1	25.1		25.1
La Muela II+ La Muela III	Enel Green Power España	Aragon	E	1	29.7		29.7
W.F. of Escucha + Sant Just	Enel Green Power España	Aragon	E	1	28.4		28.4
Saso Plano	Enel Green Power España	Aragon	E	1	39.2		39.2
Sierra Costera	Enel Green Power España	Aragon	E	1	40.8		40.8
Sierra de la Virgen	Enel Green Power España	Aragon	E	1	28.8		28.8
Alto de las Casillas I	Enel Green Power España	Community of Valencia	E	1	30.0		30.0
Alto de las Casillas II	Enel Green Power España	Community of Valencia	E	1	30.0		30.0
Ágreda	Enel Green Power España	Castile and Leon	E	1	18.0		18.0
Cantiruela	Enel Green Power España	Castile and Leon	E	1	15.0		15.0
Cogollos II	Enel Green Power España	Castile and Leon	E	1	50.0		50.0
Las Paldas	Enel Green Power España	Castile and Leon	E	1	49.5		49.5
Los Llanos	Enel Green Power España	Castile and Leon	E	1	38.0		38.0
Monte de las Navas	Enel Green Power España	Castile and Leon	E	1	48.8		48.8
Sierra del Cortado	Enel Green Power España	Castile and Leon	E	1	18.5		18.5
Sierra del Cortado II	Enel Green Power España	Castile and Leon	E	1	13.5		13.5

	Company of origin	Municipality or Autonomous Community	Type of Oper	No. of Units	Total power (MW) ⁷	% ENDESA	Potencia consolidable en ENDESA (MW)
Sierra del Madero I and II	Enel Green Power España	Castile and Leon	E	1	28.7		28.7
Valdihuelo	Enel Green Power España	Castile and Leon	E	1	16.2		16.2
W.F. Caldereros	Enel Green Power España	Castile-La Mancha	E	1	37.8		37.8
W.F. Peña II	Enel Green Power España	Castile-La Mancha	E	1	18.0		18.0
W.F. Picazo	Enel Green Power España	Castile-La Mancha	E	1	14.0		14.0
W.F. Belmonte	Enel Green Power España	Asturias	E	1	34.9		34.9
Arico I and II	Enel Green Power España	Canary Islands	E	1	16.5		16.5
Arinaga	Enel Green Power España	Canary Islands	E	1	6.9		6.9
Barranco de Tirajana	Enel Green Power España	Canary Islands	E	1	2.0		2.0
Cueva Blanca	Enel Green Power España	Canary Islands	E	1	2.0		2.0
Faro Fuencaliente	Enel Green Power España	Canary Islands	E	1	2.3		2.3
Finca San Antonio	Enel Green Power España	Canary Islands	E	1	1.5		1.5
W.F. of Epina	Enel Green Power España	Canary Islands	E	1	0.4		0.4
W.F. of Garafía (Juan Adalid)	Enel Green Power España	Canary Islands	E	1	1.6		1.6
W.F. Granadilla I	Enel Green Power España	Canary Islands	E	1	0.2		0.2
W.F. Granadilla II	Enel Green Power España	Canary Islands	E	1	0.3		0.3
Punta de Teno	Enel Green Power España	Canary Islands	E	1	1.8		1.8
Santa Lucía	Enel Green Power España	Canary Islands	E	1	4.8		4.8
Lanchal	Enel Green Power España	Castile and Leon	E	1	21.3		21.3
W.F. Aldeavieja	Enel Green Power España	Castile and Leon	E	1	14.5		14.5
W.F. Peña del Gato	Enel Green Power España	Castile and Leon	E	1	50.0		50.0
Pucheruelo	Enel Green Power España	Castile and Leon	E	1	23.0		23.0
Valdesamario	Enel Green Power España	Castile and Leon	E	1	24.0		24.0
Barbanza I and II	Enel Green Power España	Galicia	E	1	29.0		29.0
Capelada I and Capelada II	Enel Green Power España	Galicia	E	1	31.4		31.4
Faladoira-Coto Teixido	Enel Green Power España	Galicia	E	1	47.5		47.5
W.F. Chan do Tenon	Enel Green Power España	Galicia	E	1	22.4		22.4
W.F. Leboreiro	Enel Green Power España	Galicia	E	1	21.1		21.1
W.F. Pena Ventosa	Enel Green Power España	Galicia	E	1	44.8		44.8
W.F. Careón	Enel Green Power España	Galicia	E	1	18.0		18.0
W.F. Castelo	Enel Green Power España	Galicia	E	1	16.5		16.5
W.F. Coriscada	Enel Green Power España	Galicia	E	1	24.0		24.0
W.F. Corzán	Enel Green Power España	Galicia	E	1	43.2		43.2
W.F. Couto San Sebastián	Enel Green Power España	Galicia	E	1	18.0		18.0
W.F. do Vilán	Enel Green Power España	Galicia	E	1	16.9		16.9
W.F. Peña Armada	Enel Green Power España	Galicia	E	1	20.7		20.7
W.F. Peña Forcada	Enel Green Power España	Galicia	E	1	33.8		33.8
W.F. San Andrés	Enel Green Power España	Galicia	E	1	33.0		33.0
W.F. Viravento	Enel Green Power España	Galicia	E	1	1.2		1.2
Touriñan	Enel Green Power España	Galicia	E	1	24.7		24.7
Total Wind power				71	1,618		1,618
Photovoltaic							
Aznalcóllar	Enel Green Power España	Andalusia	FV	1	1.0		1.0
Guadarranque	Enel Green Power España	Andalusia	FV	1	12.3		12.3
CF Los Barrios	Enel Green Power España	Andalusia	FV	1	0.1		0.1

	Company of origin	Locality	Type of Oper	No. of Units	Total power (MW) ⁷	% ENDESA	Power consolidable in ENDESA
CF Coriscada	Enel Green Power España	Galicia	FV	1	0.02		0.02
Total Photovoltaic				4	13.4		13.4
Biomass							
Aguas de Jerez	Enel Green Power España	Andalusia	B	1	0.5		0.5
Total Biomass				1	0.5		0.5
Total Renewable energies					1,675		1,675
TOTAL SPAIN ENDESA GROUP					26,410		22,836
Gorona del Viento ⁶		El Hierro	H+E	9	12	23.2	0.000

¹ Compostilla: Decision of closure authorisation of Unit 2 (147.9 MW) 12/11/2015; The Subdelegation of the Government of Leon extended the Certificate of Closure on 11 January 2016.

² Foix: End date according to Decision of the Ministry 27/03/2015; Certificate of closure 10/06/2015.

³ ENDESA Generación has 50% of Nuclenor, a company which holds the stake in Garoña and Trillo. Consolidated under the equity method.

⁴ Candelaria includes the Guía de Isora facilities: TG1: 48.6 MW (twin-pack type = 2*24.3).

⁵ Granadilla includes the Arona facilities (TG1+TG2: 2*24.3 MW).

⁶ Hydroelectric electricity production plant of the company Gorona del Viento El Hierro, S.A., controlled 23.21% by Unelco Generation, S.A.

⁷ Consolidable installed capacity Enel Green Power España on 31 December 2016.

Fuels:

H-A: hard coal-anthracite.

LP: brown coal.

LN: black coal.

CI: imported coal.

F: fuel-oil.

G: Gas-oil.

GN: natural gas.

CCTG: combined cycle – wind turbine.

D: diesel.

N: nuclear.

H: hydroelectric.

E: wind power

FV: photovoltaic

B: biomass

H+E: pumped hydroelectric + wind.

ENDESA's generation facilities in Portugal on 31/12/2016 MW b.a.

	Company of origin	Municipality	Type of Oper	No. of Units	Total power (MW)	% ENDESA	Power consolidable in ENDESA
PORTUGAL							
Coal							
Tejo ¹	ENDESA	Pego, Abrantes	CI	2	628	43.8	0,0
Total Coal				2	628		0
Combined Cycle Gas							
Elecgas ²	ENDESA	Pego, Abrantes	CCTG	2	855	100.0	855
Total Combined Cycle Gas				2	855		855
Total Portugal				4	1,483		855
Total Spain and Portugal Group ENDESA					27,893		23,691

¹ Tejo Energy consolidated under the equity method.

² ENDESA has a 50% stake in Elecgas, but holds 100% of the Tolling contract.

	Company of origin	Municipality	Type of Oper	No. of Units	Total power (MW)	% ENDESA	Power consolidable in ENDESA
MARRUECOS							
Morocco ¹		Tahaddart	CCGT	1	384	32	123
Total Morocco				1	384	32	123

¹ Tahaddart consolidated under the equity method.

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