Endesa 9M 2017 Results

07/11/2017

Agenda

1. Highlights and key financial figures
2. Endesa's performance in 9M 2017 market context
3. Financial results
4. Final remarks

Agenda

1. **Highlights and key financial figures**
2. Endesa's performance in 9M 2017 market context
3. Financial results
4. Final remarks

Highlights

Stable contribution from the regulated business

3Q results in line with expectations

2015-2016 social bonus positive execution sentence

EGPE awarded with 879 MWs in the 2017 RW capacity auctions

Fixed costs reduction -3% (1)

(1) Includes workforce restructuring plans and contract suspension agreements provision update (€16 M in 9M 2017and €12 M in 9M 2016), infringement proceedings provision (-€2 M in 9M 2017and €8 M in 9M 2016); EGPE perimeter (-€12 M of personnel costs in 9M2017 and -€3 M in 9M 2016; -€52 M of O&M costs in 9M 2017 and -€9 M in 9M2016) and workforce restructuring provision booked in 3Q 2016 (-€30 M)

Key financial figures

€M	9M 2017	9M 2016	Change	Like-for-like
EBITDA	*2,548*	*2,869*	*-11%*	*-15%* (1)
Net attributable income	*1,085*	*1,305*	*-17%*	*-18%* (2)
Cash flow from operations (CFO)	*1,375*	*2,554*	*-46%*	

	30.09.2017	31.12.2016	Change
Net financial debt	*5,753*	*4,938*	*+17%*

- **3Q 17 results in line with expectations despite still adverse market conditions**
- **9M 16 exceptional good performance still affects EBITDA and Net Income comparison**
- **2015-2016 social bonus recognition (€142 M in EBITDA)**

(1) Net of EGPE contribution in 9M 2017 (+€124 M), and in 3Q 2016 (+24 M€)

(2) Net of EGPE contribution in 9M 2017(+€29 M) and 9M 2016 (+€12 M)

Agenda

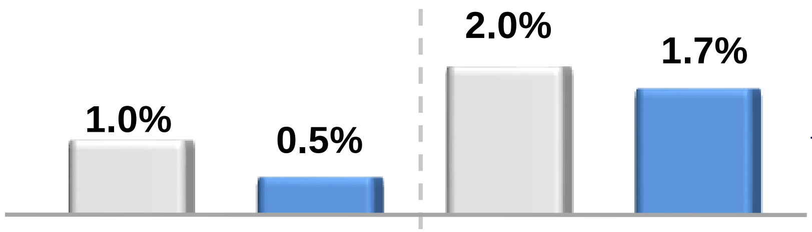
1. Highlights and key financial figures
2. **Endesa's performance in 9M 2017market context**
3. Financial results
4. Final remarks

Market context in 9M 2017

Demand

Spain[1]

Endesa distribution area[2]



(Not adjusted)

Industry	+3,1%
Services	+1.0%
Residential	+1.4%

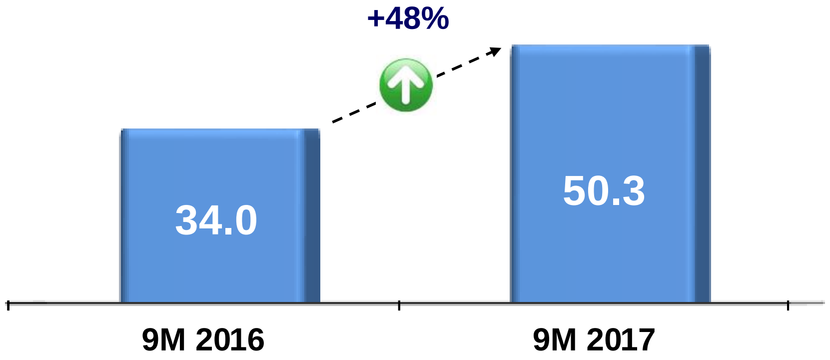
Adjusted for weather and working days

Not adjusted

- **Demand increases driven by industry and residential segments**

Electricity wholesale prices

Average pool prices Spain (€/MWh)



	9M 2016	9M 2017
Thermal Gap[3]	37.1 TWh	52,2 TWh

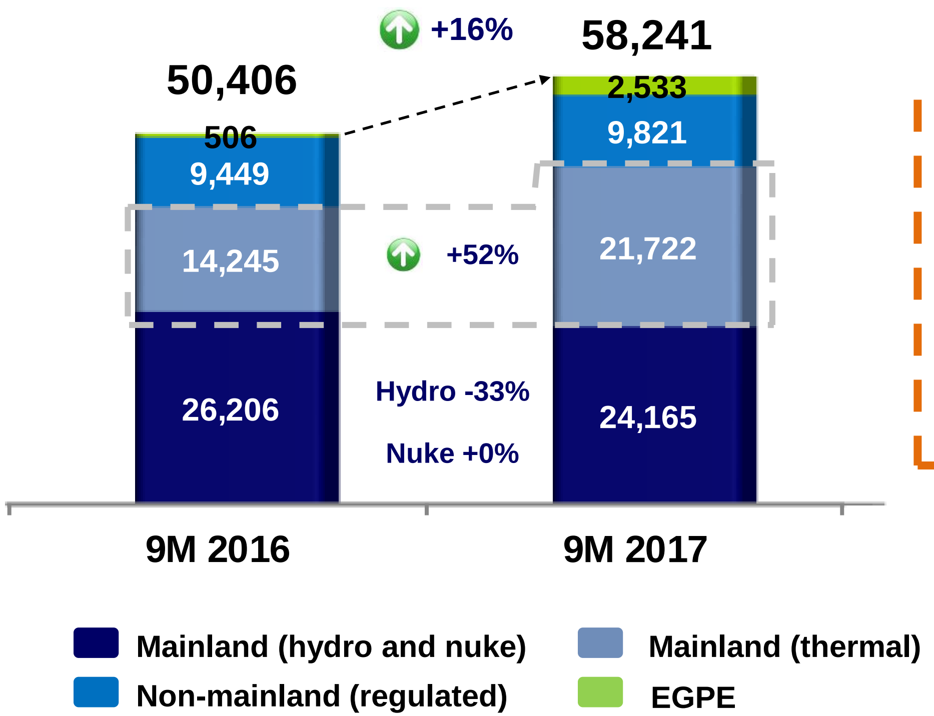
- **Remarkable pool price increase due to the exceptional market conditions (mainly) in 1Q 2017**
- **2Q and 3Q price stabilization around 50€/MWh**
- **9M 2017 extremely poor hydro conditions leading to +41% y-o-y increase in system thermal gap**

(1) Mainland. Source: REE
(2) Mainland 9M 2017. Source: Endesa's own estimates
(3) Mainland

Endesa's performance in 9M 2017 market context

Energy management

Output[1] (GWh)



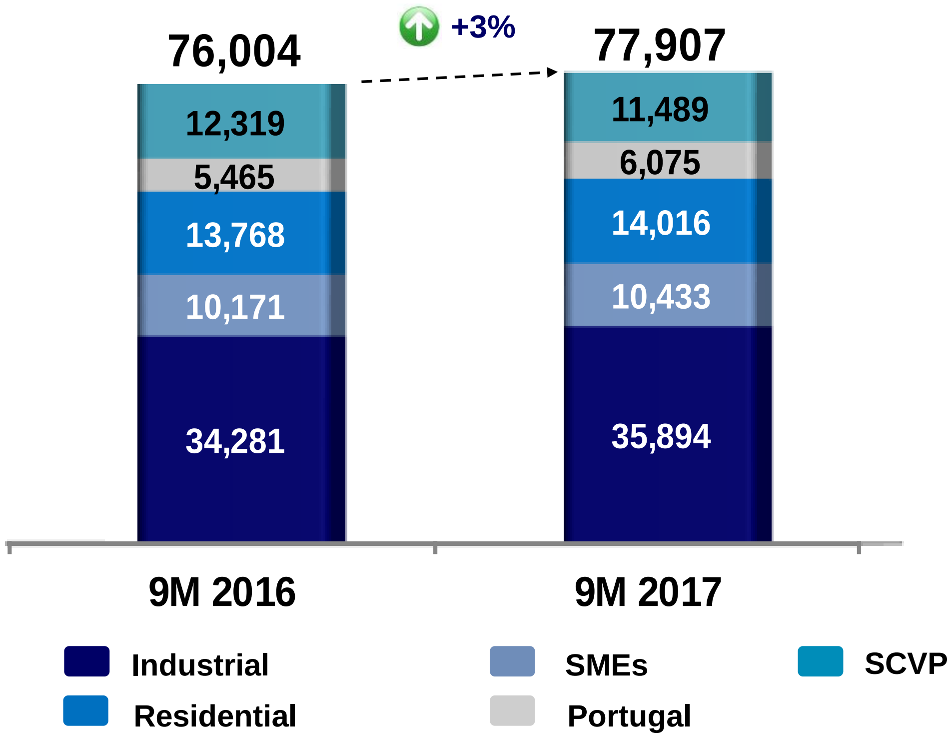
Unitary integrated margin:

€20.4/MWh

(-12% vs. 9M 2016)

(-23% l-f-l)[2]

Electricity sales[1] (GWh)



- **Unitary integrated margin at 20.4 €/MWh affected by tough market conditions**

(1) *Energy at power plant busbars*

(2) *Net of EGPE contribution in 9M 2017*

Endesa's performance in 9M 2017 market context

Renewables auctions

✓ May 2017 Auction

- 3,000 MW, mostly wind
- **Endesa: 540 MW** of **wind**
  - **€600 M** of estimated **capex**
  - Energy output: **~1.8 TWh/year**

✓ July 2017 Auction

- 5,037 MW, mostly PV (3,909 MW)
- **Endesa: 339 MW** of **PV**
  - **€270 M** of estimated **capex**
  - Energy output: **~0.6 TWh/year**

✓ 2017 RW auctions:

- 8,037MW awarded:
  - Wind: 4,108 MW
  - PV: 3,910 MW
- Capacity to come on stream before Dec. 2019
- **Endesa: 879 MW**
  - **€870 M** of estimated **capex**
  - Energy output: **~2.4 TWh/year**
  - **Attractive expected IRR** and **perfect strategic fit**

Well ahead of our ambitious target for organic growth in renewables

Agenda

1. Highlights and key financial figures
2. Endesa’s performance in 9M 2017market context
3. **Financial results**
4. Final remarks

Financial results

€M	9M 2017	9M 2016	Change	Like-f-like
Revenues	14,824	14,107	5%	
Gross Margin	4,006	4,338	-8%	
EBITDA	2,548	2,869	-11%	-15% (1)
EBIT	1,476	1,811	-18%	
Net Financial Results	(94)	(158)	41%	
Share of profit from associates	18	(35)	151%	
Income tax	(302)	(296)	2%	
Net attributable income	1,085	1,305	-17%	-18% (2)
Net Capex (3)	472	515	-8%	

EBITDA evolution:

- (-) Liberalized electricity business impacted by challenging market conditions
- (-) Liberalized gas business impacted by MtM effect and ordinary margin deterioration
- (+) EGPE contribution
- (+) Positive execution of the Supreme Court's ruling for the 2015-2016 Social Bonus
- (+) Previous years' positive settlements in non mainland Generation

(1) Net of EGPE contribution in 9M 2017 (+€124 M), and in 3Q 2016 (+24 M€)
(2) Net of EGPE contribution in 9M 2017(+€29 M) and 9M 2016 (+€12 M)
(3) Financial investments not included (€45 M)

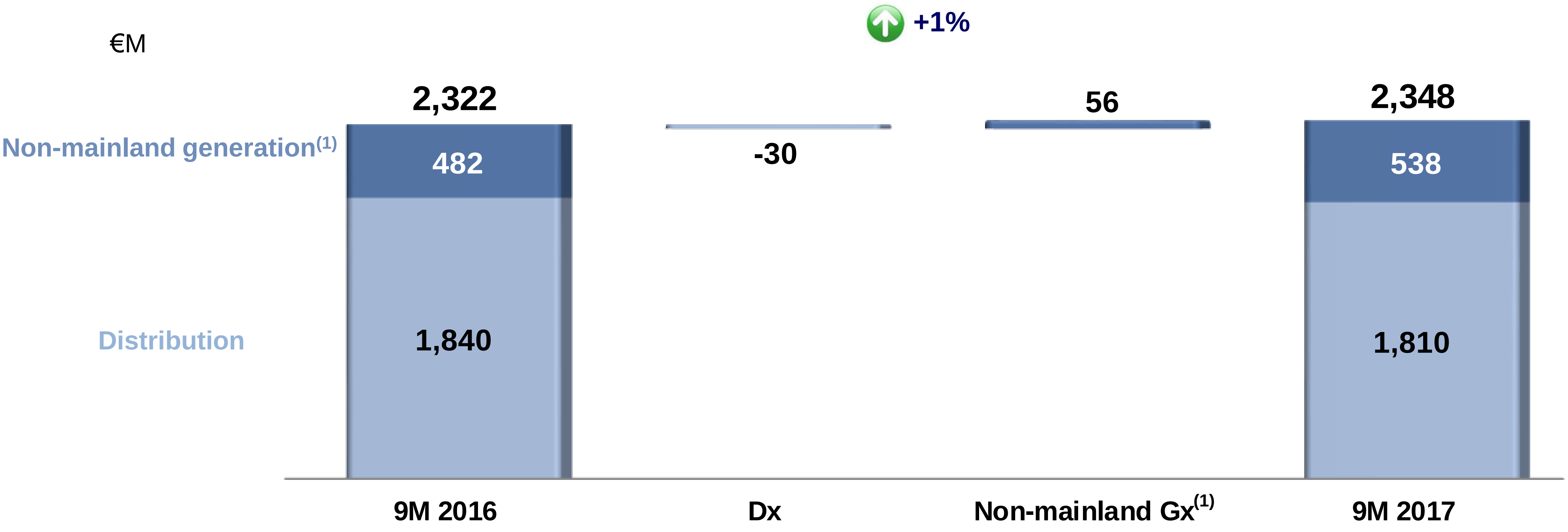
9M 2017 EBITDA breakdown

	9M 2016			9M 2017	
	%	€M	Change (%)	€M	%
Generation & Supply(1)	40%	1,160 (EGPE: 24)	-31%	800 (EGPE: 124)	31%
Non-mainland Gx	11%	309	+17%	360	14%
Distribution	49%	1,400	-1%	1,388	55%
TOTAL		2,869	-11%	2,548	

(1) *Generation & Supply business EBITDA figure includes EGPE, Corporate Structure, Services and Adjustments and does not include Non-mainland generation*

Regulated business

Gross margin evolution

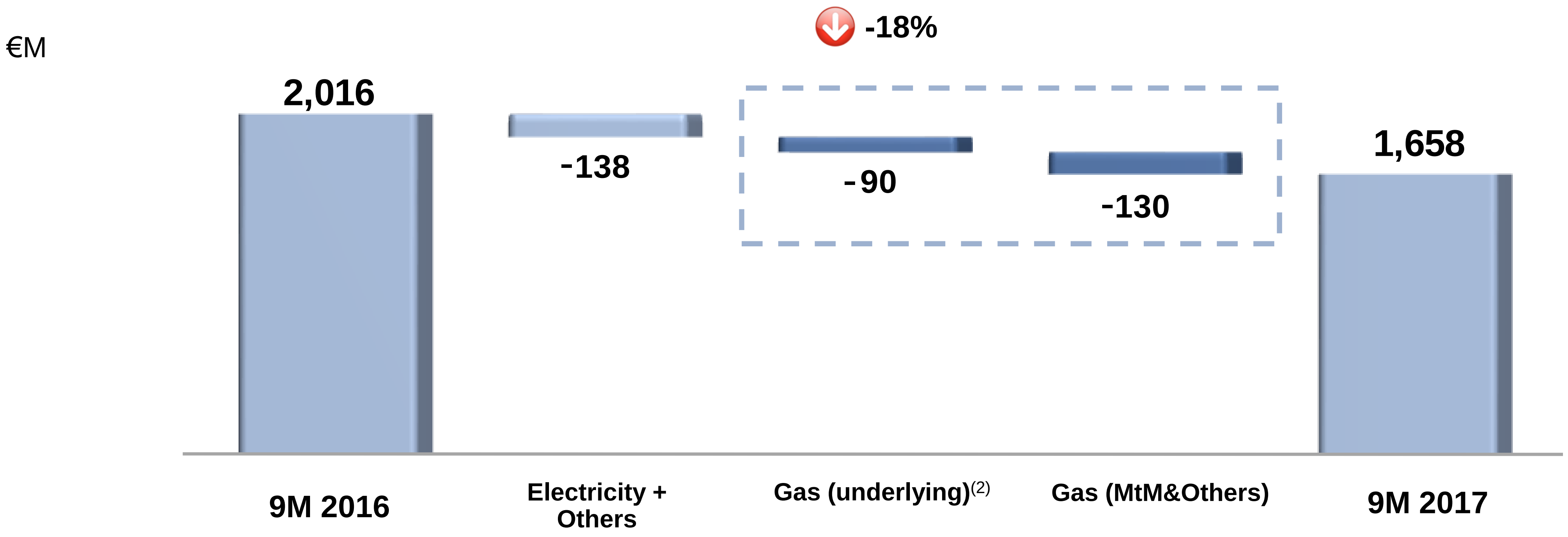


- **Stable regulated gross margin with non-mainland Gx benefitting from previous years' positive settlements**

(1) Non-mainland generation Gross Margin figure includes Canary and Balearic Islands, Ceuta and Melilla

Liberalized business(1)

Gross margin evolution



- Lower integrated unitary margin in the liberalized electricity business
- Gas business
- Favorable ruling on Catalonian nuclear tax in 9M 2016 (-€62 M)
- Domestic Coal final settlements in 9M 2016 (-€70 M)

- EGPE contribution (+€152 M)
- 2015-2016 Social Bonus (+€142 M)

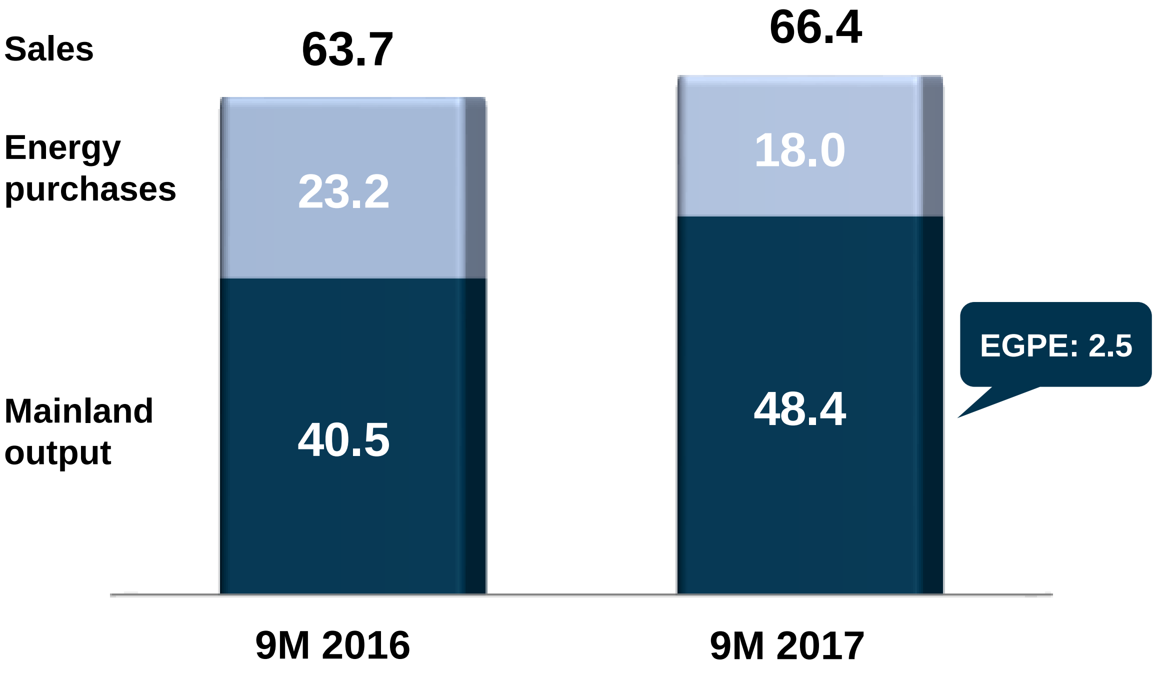
Tough market conditions in both electricity and gas

(1) Liberalized business Gross Margin figure includes Generation and Supply business, EGPE, Corporate Structure, Services and Adjustments and does not include Non-mainland generation
(2) Gas business gross margin relates to that obtained in the gas supply activity

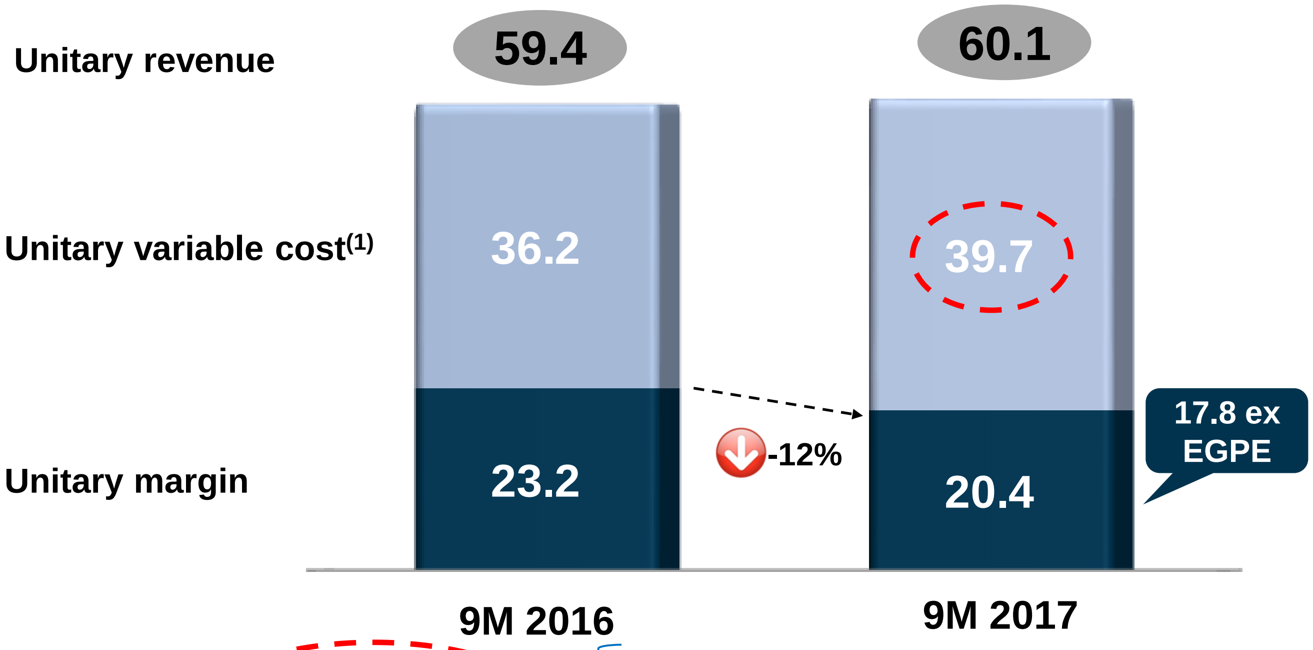
Liberalized business

9M 2017 energy management

Energy (TWh)



Unitary values breakdown (€/MWh)



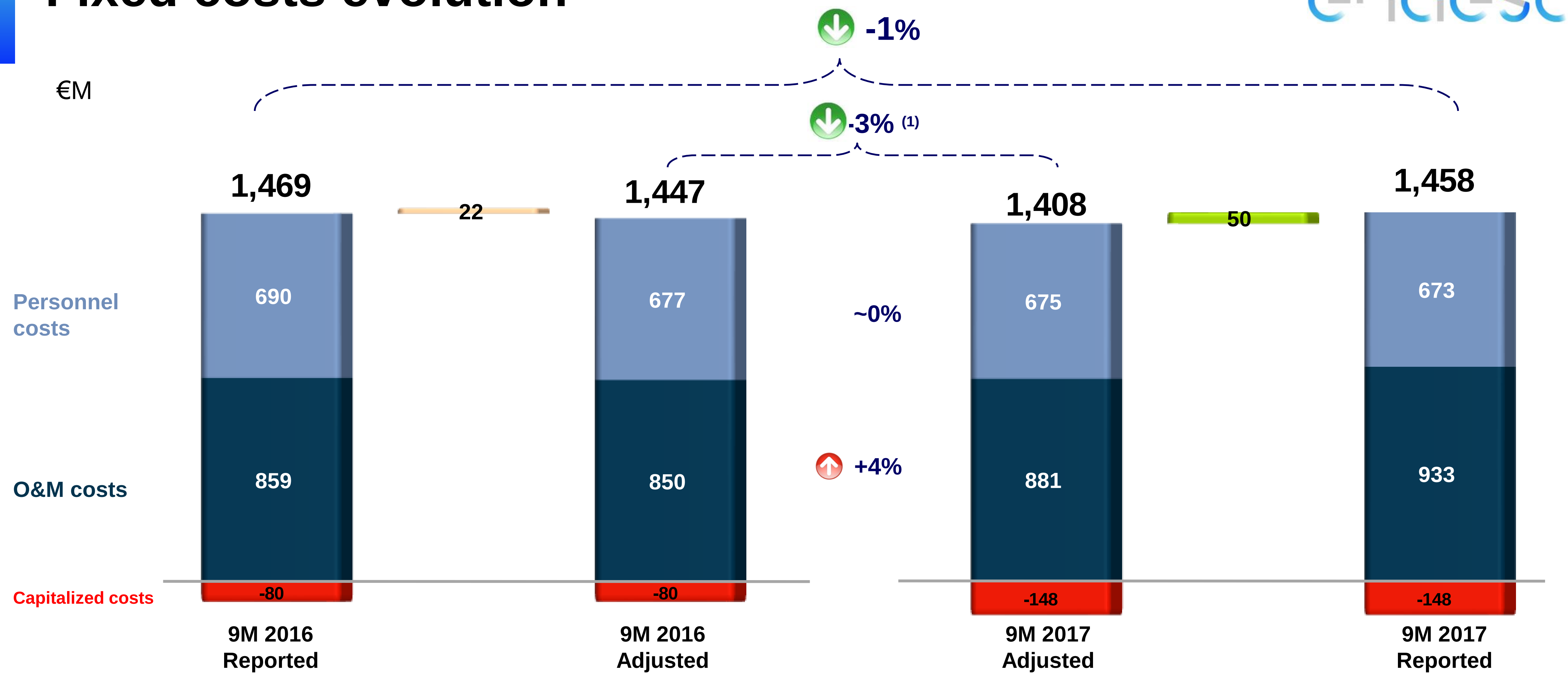
€39.7
(+€3.5/MWh vs 9M'16 variable cost)

- **Production cost(2): €31.2/MWh** (+€1.4/MWh)
- **Energy purchase cost: €51.3/MWh** (+€14.4/MWh)

- **-12% electricity unitary margin (€20.4/MWh) due to higher variable cost**

(1) Production cost + energy purchase costs + ancillary services
(2) Production cost = fuel cost + CO_2 + taxes from Law 15/2012

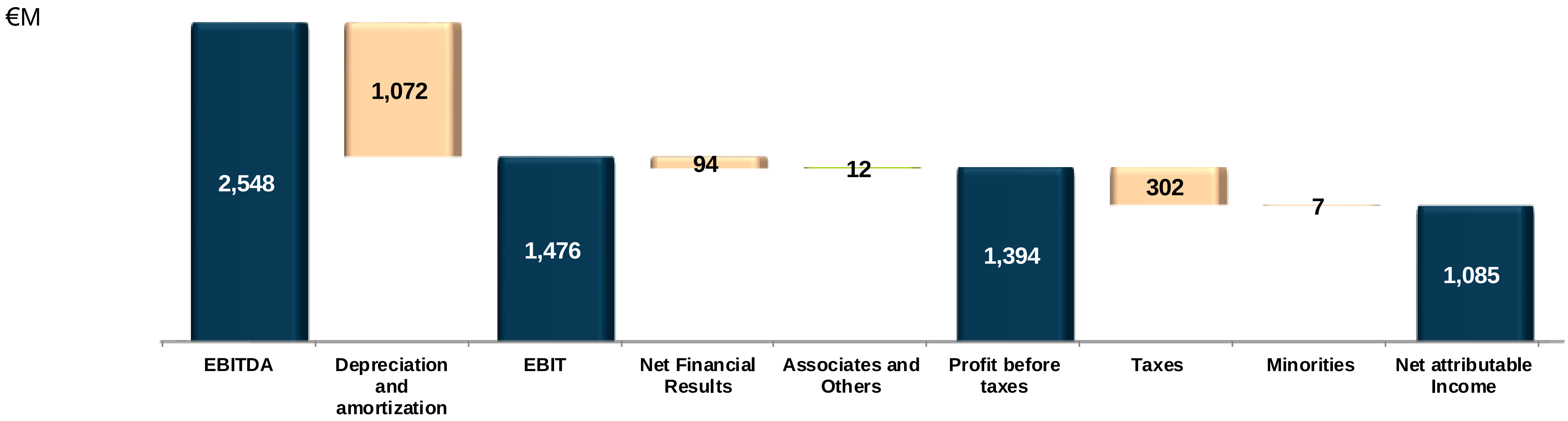
Fixed costs evolution



- **3% adjusted fixed costs reduction driven by efficiency measures implemented in recent years** (1)

(1) *Includes workforce restructuring plans and contract suspension agreements provision update (€16 M in 9M 2017and €12 M in 9M 2016), infringement proceedings provision (-€2 M in 9M 2017and €8 M in 9M 2016); EGPE perimeter (-€12 M of personnel costs in 9M2017 and -€3 M in 9M 2016; -€52 M of O&M costs in 9M 2017 and -€9 M in 9M2016) and workforce restructuring provision booked in 3Q 2016 (-€30 M)*

From EBITDA to Net Income

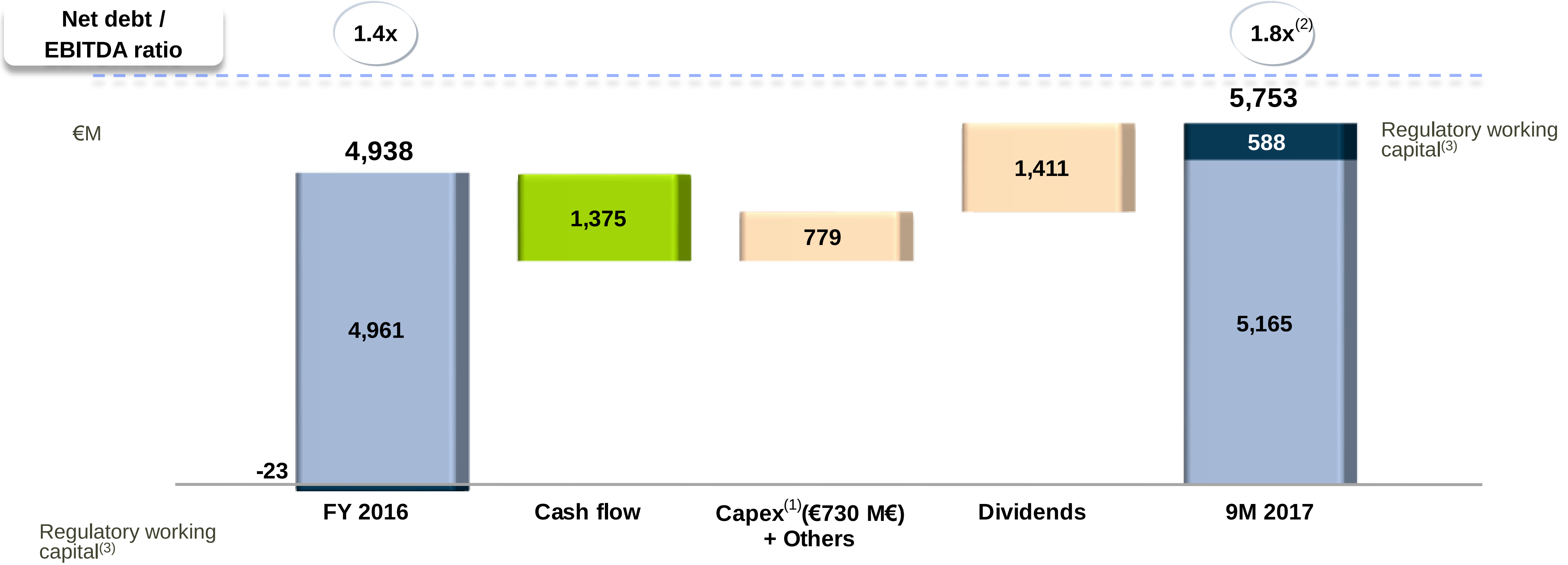


9M 2016	2,869	-1,058	1,811	-158	-51	1,602	-296	-1	1,305
Change (%)	-11%	+1%	-18%	-41%	+124%	-13%	+2%	n/a	-17%

- (-) D&A affected by EGPE consolidation (-€81 M) and partially offset by (+) hydro and renewables life extension (+€57 M)
- (+) Net financial expenses decrease due to financial provisions update (+€76 M change)
- (+) Associates impacted in 9M 2016 by 40% EGPE write-down (-€72 M)
- (-) Taxes increase due to deferred taxes provision reversal booked in 3Q16 derived from EGPE acquisition (+€81M)

Net financial debt analysis

Net financial debt evolution



- Net debt increase due to normalization of regulatory working capital
- Healthy financial leverage and strong liquidity position

(1) Cash based Capex
(2) Last 12 month EBITDA
(3) Mainland and non-mainland deficit

Agenda

1. Highlights and key financial figures
2. Endesa’s performance in 1Q 2017 market context
3. Financial results
4. **Final remarks**

Final remarks

Stable and visible contribution from the regulated business

Liberalized business positively impacted by social bonus execution sentence

EGPE key strategic contribution supports business development (879MW awarded)

Fixed costs reduction as a result of the already implemented efficiency plans

On track to meet EBITDA and Net Income guidance

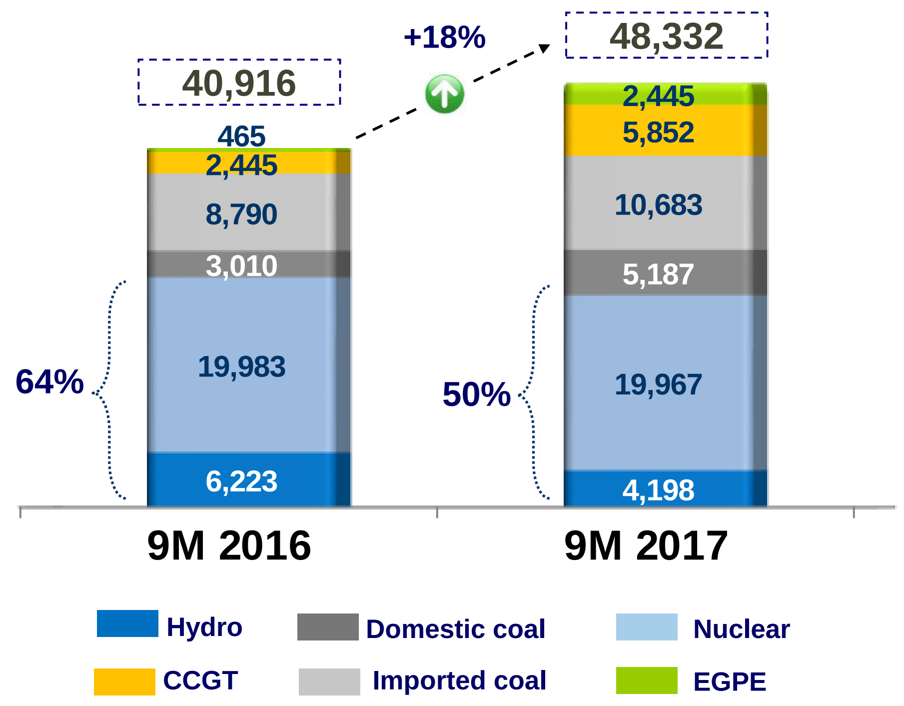
A floor for 2017 gross DPS of €1.32/share is guaranteed

Appendix

Endesa 9M 2017Results

Installed capacity and output

Mainland output[1] (GWh)



- 52% thermal output increase
- Hydro and nuclear represented 50% [3] of total output (vs. 64% in 9M 2016)

Total output (GWh)

GWh 9M 2017 (and chg. vs. 9M 2016)	Total Output [1]	
Total	58,241	16%
Hydro	4,198	-33%
Nuclear	19,967	0%
Coal	17,918	33%
Natural gas	8,326	64%
Oil-gas	5,299	4%
Renewables	2,533	401% [4]

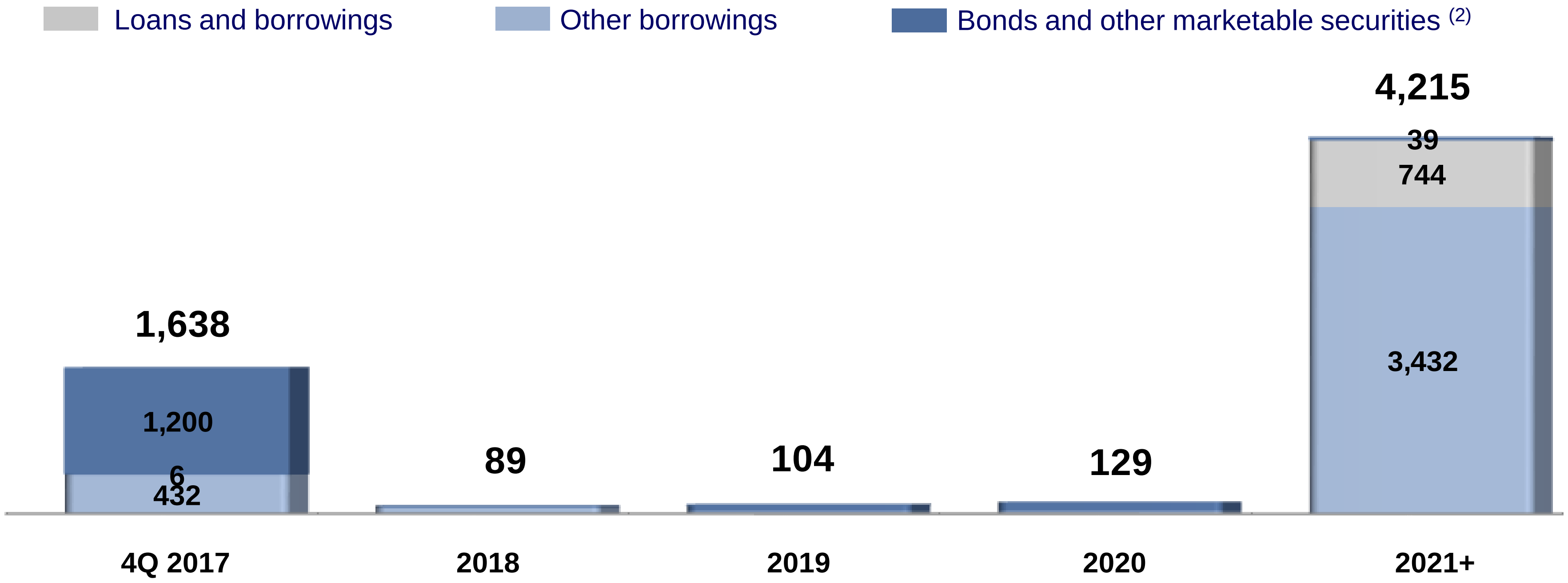
Total installed capacity (GW)

GW at 9M 2017 (and chg. vs. 31 Dic. 2016)	Total Installed capacity [2]	
Total	22.7	0%
Hydro	4.7	0%
Nuclear	3.3	0%
Coal	5.2	0%
Natural gas	5.4	0%
Oil-gas	2.4	0%
Renewables	1.7	0%

(1) Output at power plant bus bars (Gross output minus self-consumption)
(2) Net Capacity
(3) Includes EGPE output
(4) 9M 2016 EGPE output consolidation since 27th July 2016

Endesa: financial debt maturity calendar

Gross balance of maturities outstanding at 30 September 2017: €6,175 M[1]



Endesa's liquidity covers 29 months of debt maturities

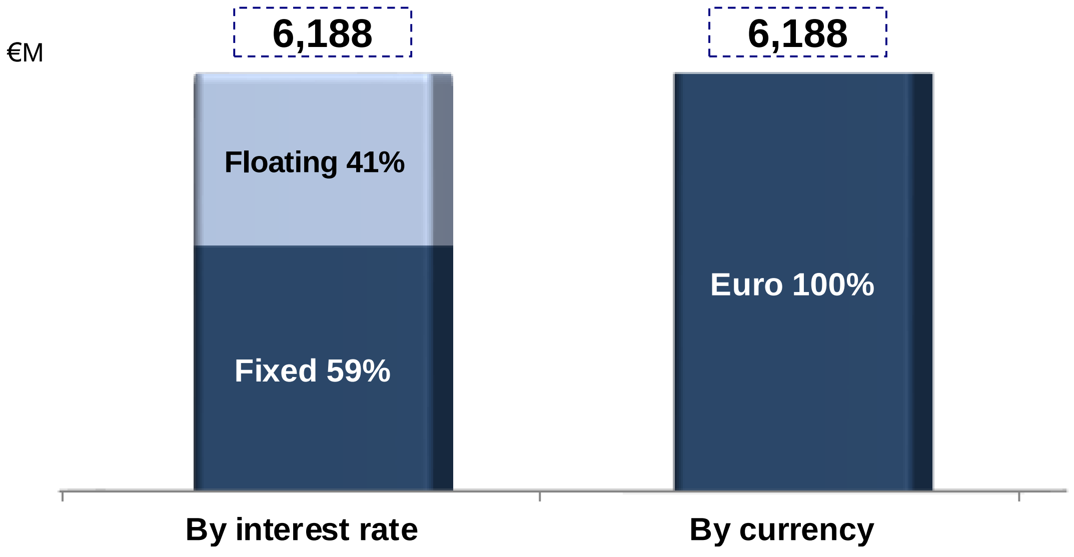
- **Liquidity €3,503 M**
  - **€427 M in cash**
  - **€3,076 M available in credit lines**
- **Average life of debt: 5.7 years**

(1) Excluding Euros 13 million relating to financial derivatives.
(2) Notes issued are backed by long-term credit lines and are renewed on a regular basis.

Gross financial debt structure

as of September 30th 2017

Structure of Endesa's gross debt



- **Average cost of debt** **2.2%**

Approval of new Social Tariff mechanism

Main features (1)

Beneficiaries	▪ **Large families** ▪ **Pensioners** ▪ **Vulnerable customer** (3 types) **according to income levels** • Vulnerable customer • Severe vulnerable customer • Customer at risk of social exclusion
Benefits	▪ **25% to 40% bonus on tariff** (**100% at risk of exclusion**) ▪ **Consumption limits** per category
Supply interruption	▪ **Vulnerable customer:** 4 months after invoice issue. ▪ **Vulnerable customer at risk of social exclusion:** no supply suspension.
Financing Procedure	▪ **To be borne by all supply companies** according to their customers share. ▪ **Endesa finances 37,7% vs previous 41,16%** ▪ **Ministry of Energy expected cost: ~€245 M/year**

(1) *According to RD 7/2016 (December 24th 2016); RD 897/2017 and Order ETU 943/2017 (October 6th 2017)*

Glossary of terms (I/II)

Item	Calculation	Reference note (#) of Consolidated Management Report
Average cost of debt (%)	(Cost of gross financial debt) / gross average financial debt: €99 M x (365/273) / €6,088 M = 2.2%	4.1
Average life of debt (number of years)	(Principal x number of days of term) / (Principal in force at the end of the period x number of days of the period): 35,351 / 6,169 = 5,7 years	4.1
Cash flow from operations (€M)	Net cash provided by operating activities (€1,375 M)	4.2
Debt maturities coverage (months)	Maturity period (months) for vegetative debt that could be covered with the liquidity available: 29 months	4.1
EBITDA (€M)	Revenues (€14,824M) – Purchases and Services (€10,818M) + Work performed by the entity and capitalized (€148M) – Personnel expenses (€673M) – Other fixed operating expenses (€933M) = €2,548 M	1.2
EBIT (€M)	EBITDA (€2,548M) - Depreciation and amortization (€1,072M) = €1,476 M	1.2
Fixed costs (Opex) (€M)	Personnel expenses (€673M) + Other fixed operating expenses (€933M) - Work performed by the entity and capitalized (€148M) = €1,458 M	1.2.2
Gross margin (€M)	Revenues (€14,824M) – Purchases and Services (€10,818M) = €4,006 M	1.2.2
Leverage (times)	Net financial debt (€5,753 M) /EBITDA (€563 M from 4Q 2016 + €2,548 M from 9M 17) = 1.8x	n/a
Net Capex (€M)	Gross tangible (€500 M) and intangible (€87 M) Capex - assets from clients' contributions and subsidies (€115 M) = €472 M	4.3

Note: Refer to the Consolidated Management Report for those Alternative Measures of Performance not contained herein

Glossary of terms (II/II)

Item	Calculation	Reference note (#) of Consolidated Management Report
Net financial debt (€M)	Long and short term financial debt (€4,481M + €1,707M) - Cash and cash equivalents (€427M) – Derivatives recognized as financial assets (€8M) = €5,753 M	4.1
Net financial results (€M)	Financial Revenues (€39M) - Financial Expenses (€135M) + Foreign Exchanges (€2M) = -€94 M	1.2.3
Regulatory working capital (€M)	Part of the working capital that is specifically related to the balances of CNMC settlements = €588 M	4.1 and 4.2
Revenues (€M)	Sales (€14,449M) + Other operating revenues (€375M) = €14,824 M	1.2.1
Unitary revenue (€/MWh)	Revenues obtained from i) selling electricity in the liberalized market in Spain and Portugal; ii) generation' ancillary services and capacity payments and iii) renewable generation incentives. All of the above divided by physical electric sales in the liberalized market in Spain and Portugal (€3.994 M / 66.4 TWh = €60.1/MWh)	n/a
Unitary variable cost (€/MWh)	i) fuel and CO_2 costs in ordinary regime in mainland Spain and Portugal; ii) taxes related to mainland Gx; iii) purchase energy cost to meet electricity sales in the liberalized market in Iberia; iv) ancillary services and other commercial costs related to retail sales in liberalized market in Iberia. All the above divided by physical electric sales in the liberalized market in Iberia (€2,640 M / 66.4 TWh = €39,7 /MWh)	n/a
Production cost (€/MWh)	i) fuel and CO_2 costs in ordinary regime in mainland Spain and Portugal; ii) taxes related to mainland generation. All of them divided by mainland Spain and Portugal generation (€1,513 M / 48,4 TWh = €31,2 /MWh)	n/a
Energy purchase cost (€/MWh)	Energy cost related to energy purchases to meet electricity sales in the liberalized market in Iberia divided by energy purchases (€923 M / 18 TWh = €51,3 /MWh)	n/a
Unitary integrated margin (€/MWh)	Unitary revenue - Unitary variable cost (€60,1 /MWh – €39,7 /MWh = €20,4 /MWh)	n/a

Note: Refer to the Consolidated Management Report for those Alternative Measures of Performance not contained herein

Disclaimer

This document contains certain "forward-looking" statements regarding anticipated financial and operating results and statistics and other future events. These statements are not guarantees of future performance and they are subject to material risks, uncertainties, changes and other factors that may be beyond ENDESA's control or may be difficult to predict.

Forward-looking statements include, but are not limited to, information regarding: estimated future earnings; anticipated changes in generation and market share; expected changes in demand for gas and gas sourcing; management strategy and goals; estimated cost reductions; tariffs and pricing structure; estimated capital expenditures; estimated asset disposals; estimated changes in capacity and capacity mix; repowering of capacity and macroeconomic conditions. The main assumptions on which these expectations and targets are related to the regulatory framework, exchange rates, commodities, counterparties, divestments, increases in production and installed capacity in markets where ENDESA operates, increases in demand in these markets, allocation of production amongst different technologies, increases in costs associated with higher activity that do not exceed certain limits, electricity prices not below certain levels, the cost of CCGT plants, and the availability and cost of the gas, coal, fuel oil and emission rights necessary to run our business at the desired levels.

In these statements, ENDESA avails itself of the protection provided by the Private Securities Litigation Reform Act of 1995 of the United States of America with respect to forward-looking statements.

The following important factors, in addition to those discussed elsewhere in this document, could cause financial and operating results and statistics to differ materially from those expressed in our forward-looking statements:

Economic and industry conditions; factors related to liquidity and financing; operating factors; strategic and regulatory, legal, fiscal, environmental, political and governmental factors; reputational factors and transaction and commercial factors.

Further details on the factors that may cause actual results and other developments to differ significantly from the expectations implied or explicitly contained in this document are given in the Risk Factors section of the current ENDESA regulated information filed with the Comisión Nacional del Mercado de Valores (the Spanish securities regulator or the "CNMV" for its initials in Spanish).

No assurance can be given that the forward-looking statements in this document will be realised. Except as may be required by applicable law, neither Endesa nor any of its affiliates intends to update these forward-looking statements.