ENDESA, S.A.

and Subsidiaries

Consolidated Management Report for the year ended 31 December 2018

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

Madrid, 25 February 2019

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR

THE YEAR ENDED

31 DECEMBER 2018

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ENDESA drew up this Consolidated Management Report for the year ended 31 December 2018 in accordance with the “Guidelines for the preparation of management reports of listed companies” issued by the Group of Experts appointed by the Spanish National Securities Market Commission (CNMV).

1. Position of the entity

1.1. Main areas of business

ENDESA, S.A. was incorporated on 18 November 1944, and its registered office is in Madrid, calle Ribera del Loira 60.

Its corporate purpose is the electricity business in all its various industrial and commercial areas, the exploitation of all types of primary energy resources, the provision of industrial services or services relating to its main area of business, particularly the gas business, and those preliminary or supplementary to the corporate purpose and management of the corporate Group, comprising investments in other companies. The Company carries out its corporate objects in Spain and abroad directly or through its investments in other companies.

ENDESA, S.A.'s business purpose is mainly categorised in section E, division 40, subclass 40.10 of the Spanish Business Classification Index (CNAE).

ENDESA, S.A. and its subsidiaries (ENDESA or the "Company") operate in the electricity and gas business, mainly in the markets of Spain and Portugal. To a lesser extent, ENDESA also supplies electricity and gas in other European markets, and other products and services related to its main business.

The organisation is divided into generation, supply and distribution activities, each of which includes electricity and, in certain cases, gas activities and other products and services.

In view of the areas of business carried on by the subsidiaries of ENDESA, S.A., transactions are not highly cyclical or seasonal.

1.2. Organisational structure

ENDESA and its subsidiaries are part of the ENEL Group, which is headed by ENEL Iberia, S.L.U. in Spain.

At 31 December 2018, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberia, S.L.U.

At the date on which this Consolidated Management Report was drawn up, the composition of ENDESA S.A.'s Executive Management Committee, the functions of which include implementation of Group strategies, was as follows:

Position	Member
Chief Executive Officer	José Damián Bogas Gálvez
General Manager - Communication	Alberto Fernández Torres
General Manager - Energy Management	Juan María Moreno Mellado
General Manager - People and Organisation	Andrea Lo Faso
General Manager - Renewable Energies	Rafael González Sánchez
General Manager - Infrastructure and Networks	Gianluca Caccialupi
General Manager - Supply	Javier Uriarte Monereo
General Manager - Institutional Relations and Regulation	José Casas Marín
General Manager - Media	José Luis Puche Castillejo
General Manager - ENDESA X	Josep Trabado Farré
General Manager - Nuclear Power	Gonzalo Carbó de Haya
General Manager - Audit	Luca Minzolini
General Manager - ICT Digital Solutions	Manuel Fernando Marín Guzmán
General Manager - Thermal Generation	Paolo Bondi
General Manager - Sustainability	María Malaxechevarría Grande
General Manager - Purchasing	Pablo Azcoitia Lorente
General Manager - Administration, Finance and Control	Luca Passa
General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs	Francisco de Borja Acha Besga

The annual corporate governance report, which describes the organisation of the ENDESA, S.A. Board of Directors and the bodies to which the Board delegates its decisions is an integral part in this Consolidated Management Report.

The general principles established in ENDESA's corporate governance strategy ensure that the company's internal rules are set up so as to guarantee transparency and the reconciliation of the interests of all parts of the shareholder structure, along with the equal treatment among all shareholders of the same kind and in the same situation.

1.3. Main markets

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

ENDESA's electricity generation and supply businesses are managed jointly, in order to optimise its position as compared to managing these activities separately.

The markets in which ENDESA carries out its activities are described as follows:

Market in Spain

- **Generation of electricity**: ENDESA carries out its electricity generation activities in the mainland system and in Non-mainland Territories (TNP), which include the Balearic and Canary Islands and the self-governing cities of Ceuta and Melilla.
    - Conventional mainland electricity generation is a deregulated activity, although there is specific remuneration for generation from renewable energies.
    - Further, conventional generation in Non-mainland Territories (TNP) is subject to specific regulations which address the particular nature of their geographical location, and their remuneration is regulated. For generation from renewable energies in Non-mainland Territories (TNP) an incentive is established for investment when generation costs are reduced.
- **Supply of electricity, gas and other products and services**: This activity consists of supplying energy on the market and the sale of other products and services to customers. The supply of energy is a deregulated activity.
- **Electricity distribution:** The purpose of the electricity distribution activity is to distribute electricity to the consumption points. Electricity distribution is a regulated activity.

Section 2.6. Statistical Appendix to this Consolidated Management Report provides a breakdown of ENDESA's key figures at 31 December 2018.

Market in Portugal

- **Generation of electricity**: Electricity generation in Portugal is carried out in a competitive environment.

- **Supply of electricity and gas**: This activity is deregulated in Portugal.

1.4. Corporate Map

ENDESA, S.A.'s activity is structured by business lines, giving the Company flexibility and the ability to respond to the needs of its customers in the territories and businesses in which it operates.

For the organisation of its business lines, ENDESA works primarily through the following companies:

Electricity generation: ENDESA Generación, S.A.U.

This company was set up on 22 September 1999 to oversee ENDESA's generation and mining assets.

ENDESA Generación, S.A.U. comprises holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), and ENEL Green Power España, S.L.U. (EGPE) (100%).

At 31 December 2018, ENDESA's installed capacity at ordinary regime facilities was 20,903 MW, of which, 16,369 MW corresponded to the mainland electricity system and the remaining 4,534 MW to Non-mainland Territories (TNP) (Balearic and Canary Islands and the cities of Ceuta and Melilla). Net installed capacity for renewables at that date stood at 1,815 MW (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

In Spain and Portugal, ENDESA had total net output in 2018 of 74,193 GWh (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

Energy distribution: ENDESA Red, S.A.U.

This company was set up on 22 September 1999 and marked the culmination of the integration of ENDESA's regional distribution companies in Spain.

Among other interests, this company holds 100% interests in ENDESA Distribución Eléctrica, S.L.U., (100%), which engages in regulated electricity distribution activity, and ENDESA Ingeniería, S.L.U. (100%).

At 31 December 2018, ENDESA distributed electricity in 27 Spanish provinces and across 10 Autonomous Communities (Andalusia, Aragón, the Balearic Islands, the Canary Islands, Castilla y León, Catalonia, Valencia, Extremadura, Galicia and Navarra) and the self-governing city of Ceuta, covering a total area of 195.487 km^2 with a total population of nearly 21 million.

The number of clients with access contract to ENDESA's distribution networks exceeded 12 million on that date , and in 2018 its network supplied a total power output of 117,029 GWh, measured at busbar cost (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

Energy supply: ENDESA Energía, S.A.U. and ENDESA X, S.A.U.

ENDESA Energía, S.A.U. was set up on 3 February 1998 to carry out supply activities, responding to the demands of Spanish electricity market deregulation. Its main business is the supply of energy to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market and other products and services around the development of efficient energy infrastructures and maintenance services.

ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%), which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U. supplies the deregulated markets of Germany, France, the Netherlands and Portugal.

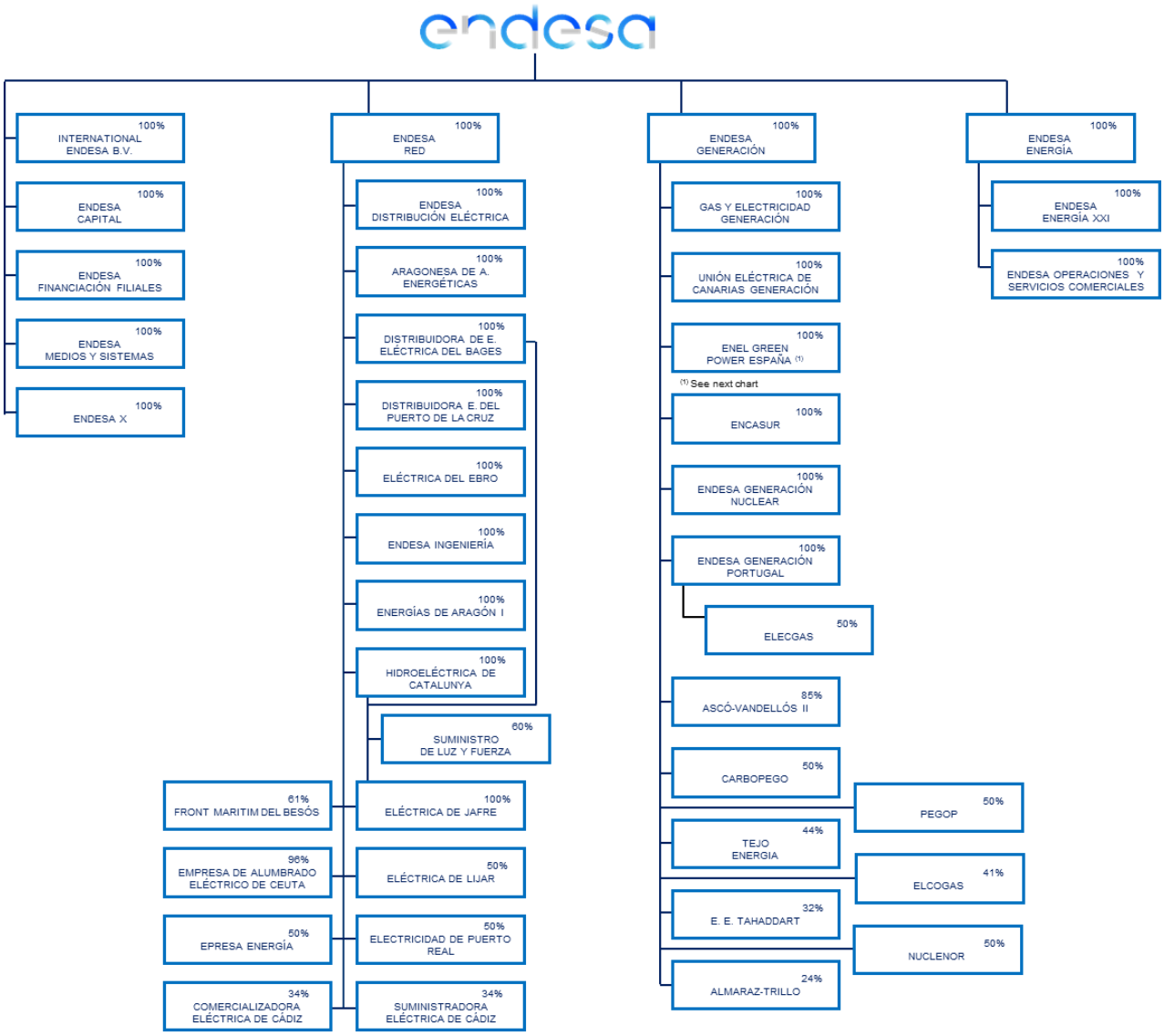
ENDESA X, S.A.U. was created on 26 June 2018 to develop and market new services adapted to trends in the energy market. Its business covers four areas: e-Home, e-Industries, e-City and e-Mobility. These pursue opportunities in electric mobility, demand management, distributed generation, energy storage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

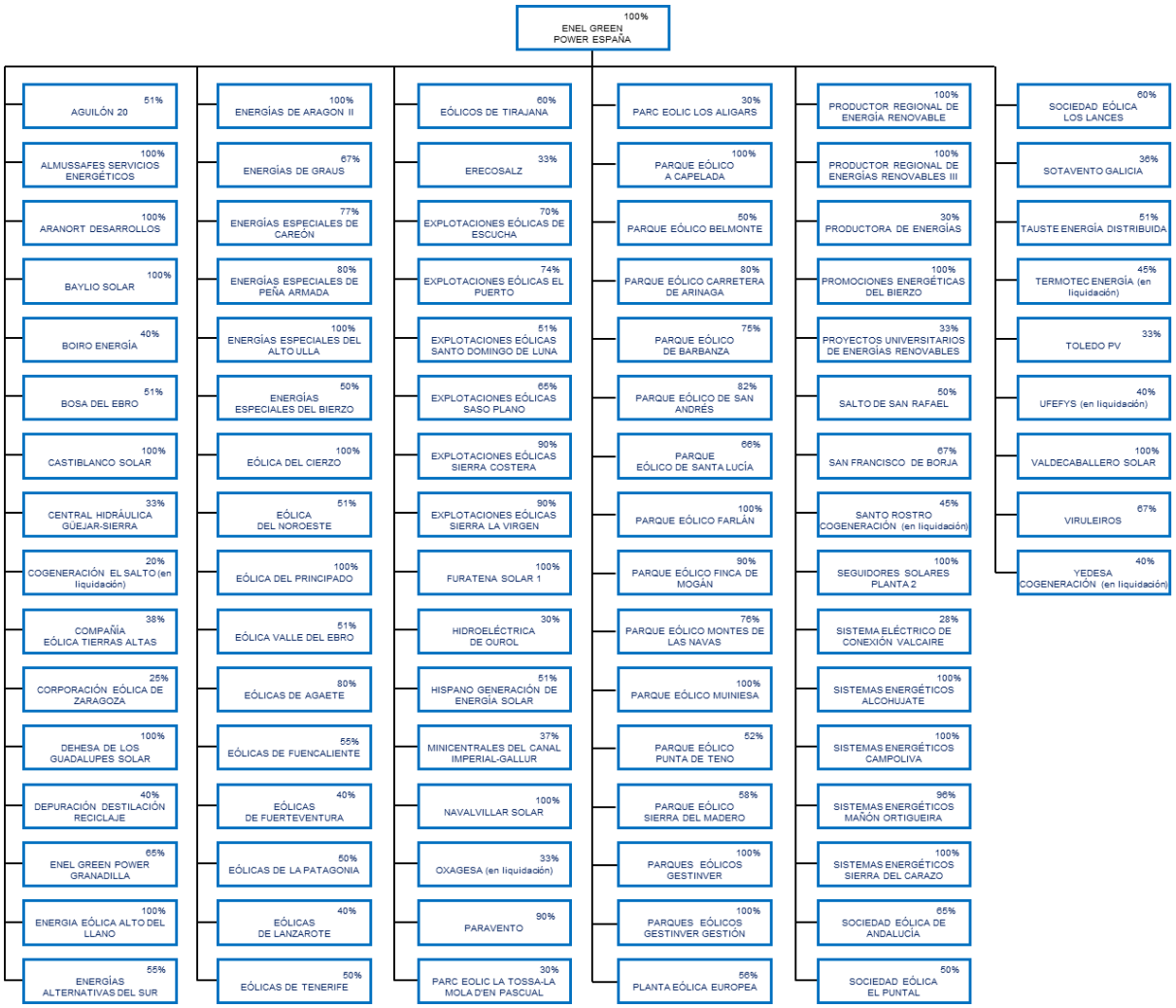
ENDESA supplied 89,639 GWh in 2018, and, as of 31 December 2018, the client portfolio in the electricity market consisted of 10.8 million of supply points. It supplied total gas of 86,729 GWh in the year, and at 31 December 2018, its customer portfolio in the conventional natural gas market was made up of 1.6 million supply points (see Section 2.6 Statistical Appendix to this Consolidated Management Report).

Appendix I to the Consolidated Financial Statements for the year ended 31 December 2018 lists ENDESA's subsidiaries and joint operation entities.

Appendix II to the Consolidated Financial Statements for the year ended 31 December 2018 lists ENDESA's associates and joint ventures.

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2018:





2. Business trends and results in 2018

2.1. Consolidated results

ENDESA reported net income of Euros 1,417 million in 2018 (-3.1%).

ENDESA reported net income of Euros 1,417 million in 2018, down 3.1% from the Euros 1,463 million reported in 2017.

Net ordinary income in 2018 was Euros 1,511 million, up 4.1% (from Euros 1,452 million).

The table below shows the breakdown of net income and net ordinary income in 2018 between ENDESA's businesses and the percentage change from the year before (see Section 2.4 Segment Information in this Consolidated Management Report):

Millions of Euros

	Net income/(loss)				Net ordinary income (2)			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	396	263	50.6	27.9	490	263	86.3	32.4
Distribution	1,046	1,048	(0.2)	73.8	1,046	1,037	0.9	69.2
Structure and other (1)	(25)	152	(116.4)	(1.7)	(25)	152	(116.4)	(1.6)
TOTAL	**1,417**	**1,463**	**(3.1)**	**100.0**	**1,511**	**1,452**	**4.1**	**100.0**

(1) Structure, services and adjustments.
(2) Net ordinary income = Profit/(loss) of the Parent - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

2.2. Changes in accounting policies

Appendix II in this Consolidated Management Report includes the effect on the Consolidated Statement of Financial Position at 1 January 2018 from the changes as a result of applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

- IFRS 9 Financial Instruments became effective in 2018. As a result, ENDESA has applied an impairment model based on the expected loss method (see Note 2.1 to the Consolidated Financial Statements for the year ended 31 December 2018).

- In applying IFRS 15 Revenue from Contracts with Customers for the first time, ENDESA capitalised under Non-Current Assets in the Consolidated Statement of Financial Position the incremental costs of obtaining these contracts with customers which, at 1 January 2018, had been recognised in the Consolidated Income Statement.

  This asset is depreciated on a systematic basis in accordance with expected average life of the contracts with customers related to these costs, which at that date ranged from 1.4 years and 9 years (see Note 2.1 to the Consolidated Financial Statements for the year ended 31 December 2018).

With regard to the transition alternative adopted in the first-time application of both standards, ENDESA has opted for the full retrospective method of adoption with cumulative effect from 1 January 2018.

Appendix III to this Consolidated Management Report includes a breakdown of the impact of applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Consolidated Financial Statements for the year ended 31 December 2018.

2.3. Analysis of results

The table below presents the detail of the main figures in ENDESA's Consolidated Income Statement for 2018 and the change from last year:

Millions of Euros

	Main figures of the Consolidated Income Statement			
	2018	2017	Difference	% Var
Income	20,195	20,057	138	0.7
Contribution margin	5,628	5,488	140	2.6
EBITDA (1)	3,627	3,542	85	2.4
EBIT (2)	1,919	2,031	(112)	(5.5)
Net financial profit/(loss) (3)	(139)	(123)	(16)	13.0
Profit/(loss) before tax	1,818	1,900	(82)	(4.3)
Net income/(loss)	1,417	1,463	(46)	(3.1)
Net ordinary income (4)	1,511	1,452	59	4.1

(1) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.
(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.
(3) Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.
(4) Net ordinary income = Profit/(loss) of the Parent - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

In 2018, EBITDA was Euros 3,627 million (+2.4%). To analyse its performance in 2018, the following factors must be taken into account:

- The decrease in power purchases (-3.0%) and fuel consumption (-1.1%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).

– The lower cost recognised for the Social Bonus in 2017 for Euros 222 million, under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various related rulings.

EBIT fell 5.5% in 2018 to Euros 1,919 million, mostly as a result of impairment losses in Thermal Power Plant of Alcudia (Balearic Islands) for Euros 158 million (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

2.3.1. Income

In 2018, income totalled Euros 20,195 million, Euros 138 million (+0.7%) higher than in 2017.

The table below presents the detail of income in the 2018 Consolidated Income Statement and the change from last year:

Millions of Euros

	Income			
	2018 (1)	**2017**	**Difference**	**% Var**
Revenue from sales	19,555	19,556	(1)	(0.0)
Other operating income	640	501	139	27.7
TOTAL	**20,195**	**20,057**	**138**	**0.7**

(1) Includes revenue from Parques Eólicos Gestinver Gestión, S.L.U. (Euros 19 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 17 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Market situation

In 2018, electricity demand trends were as follows:

– Total mainland electricity demand rose by 0.4% in the year (+0.3% adjusted for working days and temperature).

– The electricity demand in Non-mainland Territories (TNP) closed out 2018 with a 0.6% increase in the Balearic Islands and a 1.0% decrease in the Canary Islands compared with 2017 (+0.2% and -1.0% respectively, adjusted for working days and temperature).

The year 2018 featured higher prices, with the cumulative arithmetic price on the wholesale electricity market standing at Euros 57.3/MWh (+9.7%) mainly due to the increase in carbon dioxide (CO_2) emission rights and changes in raw materials prices.

The contribution of renewable energies to total mainland production was 39.0% in the year 2018 (38.7% in 2017).

In this environment:

– ENDESA's mainland ordinary regime electricity output totalled 61,338 GWh in 2018, 6.4% lower than in 2017, as follows: combined cycle plants (5,293 GWh, -37.1%), coal-fired plants (19,924 GWh, -10.7%), nuclear power plants (24,067 GWh, -9.0%), renewable and cogeneration plants (3,715 GWh, +11.4%) and hydroelectric power plants (8,339 GWh, +66.6%).

– Non-mainland Territories (TNP) generation was 12,855 GWh in 2018 (-2.2%).

– Nuclear and renewable technologies, including hydroelectric, accounted for 48.8% of ENDESA's generation mix in 2018, compared with 80.1% for the rest of the sector (44.4% and 74.6%, respectively, in 2017).

At 31 December 2018, ENDESA held the following electricity market shares:

- 22.5% in mainland electricity generation.
- 43.6% in electricity distribution.
- 33.4% in electricity supply.

Conventional gas demand rose by 4.5% in 2018, and at 31 December 2018 ENDESA had secured a market share of 16.3% in gas sales to customers in the deregulated market.

Sales

The table below presents the detail of sales in the 2018 Consolidated Income Statement and the change from last year:

Millions of Euros

	Sales			
	2018 (1)	2017	Difference	% Var
Electricity sales	14,137	14,451	(314)	(2.2)
Sales to the deregulated market	9,236	9,533	(297)	(3.1)
Sales to the Spanish deregulated market	8,227	8,457	(230)	(2.7)
Sales to customers in deregulated markets outside Spain	1,009	1,076	(67)	(6.2)
Sales at regulated prices	2,339	2,460	(121)	(4.9)
Wholesale market sales	1,130	1,137	(7)	(0.6)
Compensations for Non-mainland Territories (TNP)	1,318	1,215	103	8.5
Remuneration to the Investment in Renewable Energy	96	95	1	1.1
Other electricity sales	18	11	7	63.6
Gas sales	2,554	2,233	321	14.4
Sales to the deregulated market	2,469	2,150	319	14.8
Sales at regulated prices	85	83	2	2.4
Regulated revenue from electricity distribution	2,209	2,231	(22)	(1.0)
Other sales and services rendered	655	641	14	2.2
TOTAL	**19,555**	**19,556**	**(1)**	**(0.0)**

(1) Includes sales from Parques Eólicos Gestinver Gestión, S.L.U. (Euros 19 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 17 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Electricity sales to deregulated market customers

At 31 December 2018, ENDESA had 5,724,633 electricity customers in the deregulated market, 2.4% more than at 31 December 2017, with the following breakdown:

- 4,626,694 (+0.6%) in the Spanish mainland market.
- 824,807 (+4.8%) in the Non-mainland Territories (TNP) market.
- 273,132 (+33.2%) in deregulated markets outside Spain.

ENDESA's net sales to these customers in 2018 totalled 77,283 GWh, a 7.5% decrease on 2017 as follows:

- 67,517 GWh (-6.7%) in the Spanish deregulated market.
- 9,766 GWh (-12.9%) in deregulated markets outside Spain.

In economic terms, sales on the deregulated market in 2018 amounted to Euros 9,236 million (-3.1%), with the following breakdown:

- Sales in the Spanish deregulated market totalled Euros 8,227 million in 2018, Euros 230 million (-2.7%) less than in 2017 due mainly to the lower number of physical units sold.

- Revenue from sales to deregulated European markets other than Spain totalled Euros 1,009 million, down by Euros 67 million (-6.2%) from 2017, due mainly to the lower volume of electricity sold in Portugal, Germany and the Netherlands caused by changes in the customer mix.

Electricity sales at regulated prices

In 2018:

- ENDESA sold 12,356 GWh to customers under the regulated price via its supplier of reference, which was 4.4% less than in 2017.

- These sales entailed an income of Euros 2,339 million, down 4.9% from 2017, mainly as a result of the reduction in physical units sold.

Gas sales

At 31 December 2018, ENDESA had 1,603,731 gas customers in the deregulated market, a 2.8% increase on numbers at 31 December 2017:

- 233,163 (-5.3%) in the regulated market.

- 1,370,568 (+4.3%) in the deregulated market.

ENDESA sold 86,729 GWh to customers in the natural gas market in 2018, which represents an 8.6% increase on the 2017 figure.

Revenue from gas sales totalled Euros 2,554 million in 2018, up Euros 321 million (+14.4%) on the 2017 figure, as follows:

- Gas sales in the deregulated market totalled Euros 2,469 million, which is Euros 319 million more than in 2017 (+14.8%) due mainly to the higher sales prices.

- Revenue from gas sales at the regulated prices totalled Euros 85 million, Euros 2 million higher than the year before (+2.4%) due mainly to the higher number of physical units sold.

Compensations for Non-mainland Territories (TNP)

Compensations in 2018 for the extra-costs of Non-mainland Territories (TNP) generation totalled Euros 1,318 million, up by Euros 103 million (+8.5%) against 2017, due mainly to increased fuel prices brought about by changing commodity prices and (CO_2) emission rights.

Electricity distribution

ENDESA distributed 117,029 GWh in the Spanish market in 2018, 0.8% less than in 2017.

Regulated revenue recognised for distribution in 2018 was Euros 2,209 million, Euros 22 million less than in 2017 (-1.0%).

Other operating income

The table below presents the detail of other operating income in 2018 and the change compared with the previous year:

Millions of Euros

	Other operating income			
	2018	2017	Difference	% Var
Changes in fuel stock derivatives	294	158	136	86.1
Grants released to income (1)	21	30	(9)	(30.0)
Recognition of contract liabilities from contracts with customers in profit or loss	157	153	4	2.6
Rendering of services at plants	6	10	(4)	(40.0)
Trading rights	42	45	(3)	(6.7)
Compensations paid to third parties	31	20	11	55.0
Other	89	85	4	4.7
TOTAL	**640**	**501**	**139**	**27.7**

(1) Includes grants released to assets for Euros 18 million in 2018 (Euros 22 million in 2017) (see Notes 16 and 25.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

In 2018, other operating income totalled Euros 640 million, up Euros 139 million from 2017 (+27.7%) due mainly to the increase of Euros 136 million (+86.1%) in income from the valuation and settlement of energy stock derivatives due to the valuation and settlement of gas and electricity derivatives, which partially offset the increase of Euros 65 million (+35.7%) in related expenses recognised under “Other variable procurements and services" in the Consolidated Income Statement (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

2.3.2. Operating expenses

Operating expenses totalled Euros 18,546 million in 2018, 1.6% more than in 2017.

The table below presents the detail of operating expenses in 2018 and their variation compared with the previous year:

Millions of Euros

	Operating expenses			
	2018 (1)	2017	Difference	% Var
Procurements and services	14,567	14,569	(2)	(0.0)
Power Purchases	4,784	4,933	(149)	(3.0)
Fuel consumption	2,269	2,294	(25)	(1.1)
Transport costs	5,463	5,652	(189)	(3.3)
Other variable procurements and services	2,051	1,690	361	21.4
Personnel expenses	947	917	30	3.3
Other fixed operating expenses	1,324	1,251	73	5.8
Depreciation and amortisation, and impairment losses	1,708	1,511	197	13.0
TOTAL	**18,546**	**18,248**	**298**	**1.6**

(1) Includes operating expenses of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 1 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 9 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 14,567 million in 2018, in line with the figure for 2017.

The performance of these costs in 2018 was:

– Power purchases and fuel consumption fell by Euros 174 million (-2.4%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).

– Other variable procurements and services in the Consolidated Income Statement totalled Euros 2,051 million, up Euros 361 million on 2017 (+21.4%), mainly due to:

Millions of Euros

	Other variable procurements and services			
	2018	2017	Difference	% Var
Social Bonus	88	(141)	229	(162.4)
Carbon dioxide emission allowances (CO_2)	361	214	147	68.7
Changes in fuel stock derivatives	247	182	65	35.7
Incremental costs of obtaining contracts with customers	3	64	(61)	(95.3)
Other costs associated with new products and services	179	151	28	18.5
Other	1,173	1,220	(47)	(3.9)
TOTAL	**2,051**	**1,690**	**361**	**21.4**

- The higher cost recognised for the Social Bonus (or Social Tariff) of Euros 229 million, due mainly to the lower expense recognised in 2017 of Euros 222 million under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various related rulings.

- The Euros 147 million (+68.7%) increase in the cost carbon dioxide (CO_2) emission rights, despite the drop in thermal output (-13.3%), as a result of an increase in market prices.

- The increase of Euros 65 million (+35.7%) in expenses relating to energy derivatives, offset by the Euros 136 million increase in income for the same item (+86.1%) recognised under "Other operating income" in the Consolidated Income Statement, mainly due to changes in the valuation and settlement of gas and electricity derivatives (see Section 2.3.1. Income in this Consolidated Management Report).

- The Euros 61 million (-95.3%) decrease as a result of the capitalisation, from 1 January 2018, of the incremental costs of obtaining contracts with customers applying IFRS 15 Revenue from Contracts with Customers (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

- The Euros 28 million (+18.5%) increase in costs associated with new products and services), as a result of the rise in billing corresponding to these activities (Euros 32 million).

Personnel and other fixed operating expenses (fixed costs)

Fixed costs totalled Euros 2,271 million in 2018, up Euros 103 million (+4.8%) from the year before.

The table below presents the detail of fixed costs in 2018 and their variation compared with the previous year:

Millions of Euros

	Fixed costs			
	2018 (1)	2017	Difference	% Var
Personnel expenses	947	917	30	3.3
Other fixed operating expenses	1,324	1,251	73	5.8
TOTAL	**2,271**	**2,168**	**103**	**4.8**

(1) Includes fixed costs from Parques Eólicos Gestinver Gestión, S.L.U. (Euros 2 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 5 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

Personnel expenses

Personnel expenses totalled Euros 947 million in 2018, up Euros 30 million (+3.3%) compared to 2017. The following effects should be considered when examining personnel expenses during 2018:

- Updates of provisions for workforce reduction plans underway and contract suspension agreements (negative Euros 4 million in 2018 and positive Euros 27 million in 2017, respectively).

- Net provisions for workforce succession plans, voluntary departure agreements, indemnities and other tax and occupational risks (Euros 0 million in 2018 and Euros 16 million in 2017).

Stripping out these effects, personnel expenses in 2018 would have increased by Euros 15 million (+1.6%).

Other fixed operating expenses

Other fixed operating expenses in 2018 amounted to Euros 1,324 million, up by Euros 73 million (+5.8%) from 2017.

This amount reflects an increase in fines from disciplinary proceedings of Euros 12 million.

Stripping out this impact, other fixed operating expenses in 2018 would have increased by Euros 61 million (+4.9%) from the year before, due mainly to the increase in the cost of telecommunications services of Euros 47 million, in line with targets of the digitalisation strategy.

Depreciation and amortisation, and impairment losses

The table below presents the detail of depreciation and amortisation, and impairment losses in 2018 and the variation compared to the previous year:

Millions of Euros

	Depreciation and amortisation, and impairment losses			
	2018 (1)	2017	Difference	% Var
DEPRECIATION AND AMORTISATION	**1,480**	**1,350**	**130**	**9.6**
Provision for the depreciation of property, plant and equipment	1,259	1,200	59	4.9
Provision for amortisation of intangible assets	221	150	71	47.3
IMPAIRMENT LOSSES	**228**	**161**	**67**	**41.6**
Non-financial assets	**148**	**(21)**	**169**	**(804.8)**
Provision for impairment losses on property, plant and equipment and investment property	153	(13)	166	(1,276.9)
Lands in Palma de Mallorca ENDESA Distribución Eléctrica, S.L.U.	-	(14) (2)	14	N/A
Thermal Power Plant of Alcudia (Balearic Islands)	157 (3)	-	157	N/A
Other property, plant and equipment and investment property	(4)	1	(5)	(500.0)
Provision for impairment losses on intangible assets	(6)	(8)	2	(25.0)
Other intangible assets	(6)	(8)	2	(25.0)
Provision for impairment losses for goodwill	1	-	1	N/A
Balearic Islands cash-generating unit (CGU)	1 (3)	-	1	N/A
Financial assets	**80**	**182**	**(102)**	**(56.0)**
Provision for impairment losses on receivables from contracts with customers	79	182	(103)	(56.6)
Provision for impairment losses on other financial assets	1	-	1	N/A
TOTAL	**1,708**	**1,511**	**197**	**13.0**

(1) Includes depreciation and amortisation, and impairment losses of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 6 million) and Empresa de Alumbrado Eléctrico de Ceuta, S.A. (Euros 2 million) from the respective dates control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).
(2) Euros 11 million, net of the related tax effect.
(3) Euros 119 million, net of the related tax effect.

Depreciation and amortisation, and impairment losses totalled Euros 1,708 million in 2018, up Euros 197 million (+13.0%) compared to 2017. The following factors must be taken into account when looking at depreciation and amortisation, and impairment losses for 2018:

– A provision for impairment was recognised in 2018 following publication of the Order TEC/1158/2018, of 29 October 2018, on the additional remuneration of Non-mainland Territories (TNP) electricity generating facilities, required to make additional investments in order to comply with EU and Spanish regulations in order to remain operational, which does not include the coal-fired units of the Thermal Power Plant of Alcudia (Balearic Islands).

  In not recognising this additional remuneration system, on 27 December 2018, the Company filed against the Directorate General of Energy and Climate Change of the Balearic Government, the request for authorization to close the Groups 1 and 2 of the Thermal Power Plant of Alcudia (Balearic Islands) and, also, a reduction of the estimated useful life of Groups 3 and 4 of that Power Plant.

  As a result, the recoverable amount of these assets is lower than their carrying amount, resulting in the recognition on the Consolidated Income Statement of an impairment loss amounting to Euros 158 million (see Notes 3e.2, 6, 10 and 29 to the Consolidated Financial Statements for the year ended 31 December 2018).

– The capitalisation from 1 January 2018 in "Non-current assets" in the Consolidated Statement of Financial Position of the incremental costs of obtaining contracts with customers in accordance with IFRS 15 Revenue from Contracts with Customers includes an increase of Euros 54 million in depreciation and amortisation costs related to this item (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

– In 2017, there was also a reversal of impairment losses on property, plant and equipment recognised in previous periods for certain land amounting to Euros 14 million.

Without considering the impacts described in preceding paragraphs, depreciation and amortisation, and impairment losses in 2018 would have decreased by EUR 29 million (-1.9%) from 2017.

2.3.3. Net financial profit/(loss)

The Group reported net financial losses of Euros 139 million and Euros 123 million in 2018 and 2017, respectively.

The table below presents the detail of net financial profit/(loss) in 2018 and its variation compared with the previous year:

Millions of Euros

	Net financial profit/(loss) (1)			
	2018 (2)	**2017**	**Difference**	**% Var**
Financial income	36	51	(15)	(29.4)
Financial expense	(173)	(178)	5	(2.8)
Net exchange differences	(2)	4	(6)	(150.0)
TOTAL	**(139)**	**(123)**	**(16)**	**13.0**

(1) Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.
(2) Includes the net financial profit/(loss) of Parques Eólicos Gestinver Gestión, S.L.U. (Euros 3 million loss) from the date control was obtained (see Section 2.5. Consolidation Scope in this Consolidated Management Report).

The net financial loss in 2018 totalled Euros 137 million, up Euros 10 million (+7.9%) from 2017.

Net exchange differences amounted to negative Euros 2 million in 2018 (net exchange gains of Euros 4 million in 2017).

The following effects should be considered when examining net financial losses in 2018:

Millions of Euros

	Net financial loss (1)			
	2018	2017	Difference	% Var
Expenses for financial liabilities at amortised cost	(129)	(133)	4	(3.0)
Income from financial assets at amortised cost	10	19	(9)	(47.4)
Interest for financing deficit	7	-	7	N/A
Social Bonus	-	15	(15)	N/A
Other	3	4	(1)	(25.0)
Update of provisions for workforce restructuring plans, plant dismantling and impairment of financial assets in accordance with IFRS 9 Financial Instruments	(8)	(5)	(3)	60.0
Other	(10)	(8)	(2)	25.0
TOTAL	**(137)**	**(127)**	**(10)**	**7.9**

(1) Net financial expense - Financial income - Financial expense.

- In both 2018 and 2017 there was an update in the provisions for obligations arising from workforce reduction plans underway and contract suspension agreements, the dismantling of facilities, and the impairment of financial assets in accordance with IFRS 9 Financial Instruments (see Section 2.2. Changes in accounting policies in this Consolidated Management Report) for a negative net amount of Euros 8 million and Euros 5 million, respectively.

- In 2018, financial income of Euros 7 million was recognised for revenue associated with the adjustment of interests for financing the deficit of income in regulated activities in Spain in 2013 (see Section 3. Regulatory Framework in this Consolidated Management Report) while in 2017 financial income were recognized in relation to the Supreme Court ruling on the enforcement of the judgement filed by ENDESA and with regard to the Social Bonus for the amount of Euros 15 million.

Without considering the impacts described in the previous paragraphs, net financial loss in 2018 would have decreased by Euros 1 million (-0.7%) due to the combination of the following factors (see Section 4.1. Financial Management in this Consolidated Management Report):

- The lower average cost of gross financial debt, which fell from 2.1% in 2017 to 1.9% in 2018.

- The higher average gross financial debt in both periods, rising from Euros 6,082 million in 2017 to Euros 6,777 million in 2018.

2.3.4. Net profit/(loss) of companies accounted for using the equity method

In 2018, companies accounted for using the equity method contributed net profit of Euros 35 million, compared to a net loss of Euros 15 million in 2017, as follows:

Millions of Euros

	Net profit/(loss) of companies accounted for using the equity method	
	2018	2017
Associates	**7**	**4**
Tecnatom, S.A.	-	(4)
Gorona del Viento El Hierro, S.A.	-	3
Boiro Energía, S.A.	1	2
Compañía Eólica Tierras Altas, S.A.	1	1
Other	5	2
Joint Ventures	**28**	**(19)**
Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.	7	10
Nuclenor, S.A. (1)	4	(48)
Énergie Électrique de Tahhadart, S.A.	2	7
Suministradora Eléctrica de Cádiz, S.A.	2	1
Other	13	11
TOTAL	**35**	**(15)**

(1) See Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2018.

In 2017, this heading included a loss of Euros 48 million on the 50% interest in Nuclenor, S.A. due to recognition of a provision to cover the additional costs estimated for the dismantling of the Nuclear Plant at Santa María de Garoña (Burgos).

2.3.5. Gains/(losses) on disposal of assets

Gains on disposal of assets in 2018 and 2017 amounted to Euros 3 million and Euros 7 million, respectively, broken down as follows:

Millions of Euros

	Sections	Gains/(losses) on disposal of assets	
		2018	2017
Non-financial assets		**38**	**34**
Land at Sant Adrià del Besòs	2.5	34 (1)	-
Other gains/(losses)		4	34
Proceeds from sale of investments in Group companies and other		-	13
Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.		-	4
Nueva Marina Real Estate, S.L.		-	9
Proceeds from sale of property, plant and equipment		4	7
Other		-	14
Financial assets		**(35)**	**(27)**
Factoring transaction fees		(35)	(27)
NET TOTAL		**3**	**7**

(1) Euros 25 million, net of the related tax effect.

2.3.6. Income tax expense

Income tax expense in 2018 amounted to Euros 392 million, a decrease of Euros 35 million from 2017 (-8.2%).

The effective tax rate in 2018 was 21.6% (22.5% in 2017).

In 2018, this item of the Consolidated Income Statement included Euros 25 million for the inspection carried out by the tax authorities on income tax for the years 2011 to 2014.

Stripping out the impact described in the preceding paragraph, the effective tax rate in 2018 would have been 20.2%.

2.3.7. Net income

Net income attributable to the parent company in 2018 amounted to Euros 1,417 million, a decrease of Euros 46 million (-3.1%) from 2017.

Net ordinary income attributable to the parent company in 2018 totalled Euros 1,511 million, up Euros 59 million (+4.1%) from the year before.

2.4. Segment information

Segment information is included in Note 34 to the Consolidated Financial Statements for the year ended 31 December 2018.

The table below presents the detail of ENDESA's main figures for 2018 and their variation compared with the previous year:

Millions of Euros

	2018				2017			
	Generation and supply	Distribution	Structure and other (1)	TOTAL	Generation and supply	Distribution	Structure and other (1)	TOTAL
Income	17,621	2,784	(210)	20,195	17,509	2,750	(202)	20,057
Contribution margin	3,157	2,583	(112)	5,628	2,784	2,590	114	5,488
EBITDA (2)	1,617	2,059	(49)	3,627	1,350	2,050	142	3,542
EBIT (3)	588	1,429	(98)	1,919	488	1,453	90	2,031
Net financial profit/(loss) (4)	(150)	(75)	86	(139)	(132)	(96)	105	(123)
Profit before tax	468	1,363	(13)	1,818	314	1,379	207	1,900
Net income	396	1,046	(25)	1,417	263	1,048	152	1,463
Net ordinary income (5)	490	1,046	(25)	1,511	263	1,037	152	1,452

(1) Structure, services and adjustments.
(2) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.
(3) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.
(4) Net financial profit/(loss) = Financial Income - Financial Expenses + Net Exchange Differences
(5) Net ordinary income = Profit/(loss) for the Parent company - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

2.4.1. Contribution margin

The table below presents the distribution of the revenue from sales and other operating income among ENDESA businesses in 2018 and variations compared with the previous year:

Millions of Euros

	Revenue from sales				Other operating income			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	17,203	17,223	(0.1)	88.0	418	286	46.2	65.3
Non-mainland generation (TNP)	2,106	1,943	8.4	10.8	9	9	-	1.4
Other generation and supply	16,118	16,204	(0.5)	82.4	409	277	47.7	63.9
Adjustments	(1,021)	(924)	10.5	(5.2)	-	-	-	-
Distribution	2,509	2,492	0.7	12.8	275	258	6.6	43.0
Structure and other (1)	(157)	(159)	(1.3)	(0.8)	(53)	(43)	23.3	(8.3)
TOTAL	**19,555**	**19,556**	**(0.0)**	**100.0**	**640**	**501**	**27.7**	**100.0**

(1) Structure, services and adjustments.

The following table contains the breakdown of procurements and services between ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros

	Procurements and Services (2)			
	2018	2017	% Var	% of total
Generation and supply	14,464	14,725	(1.8)	99.3
Non-mainland Territories generation (TNP)	1,504	1,258	19.6	10.3
Other generation and supply	13,976	14,385	(2.8)	95.9
Adjustments	(1,016)	(918)	10.7	(6.9)
Distribution	201	160	25.6	1.4
Structure and other (1)	(98)	(316)	(69.0)	(0.7)
TOTAL	**14,567**	**14,569**	**(0.0)**	**100.0**

(1) Structure, services and adjustments.
(2) Procurements and services = Power purchases + Fuel consumption + Transport costs + Other variable procurements and services.

The breakdown of the contribution margin in ENDESA's businesses in 2018 and variations compared to the previous year are as follows:

Millions of Euros

	Contribution margin (2)			
	2018	2017	% Var	% of total
Generation and supply	3,157	2,784	13.4	56.1
Non-mainland Territories generation (TNP)	611	694	(12.0)	10.9
Other generation and supply	2,551	2,096	21.7	45.3
Adjustments	(5)	(6)	(16.7)	(0.1)
Distribution	2,583	2,590	(0.3)	45.9
Structure and other (1)	(112)	114	(198.2)	(2.0)
TOTAL	**5,628**	**5,488**	**2.6**	**100.0**

(1) Structure, services and adjustments.
(2) Contribution margin = Income - Procurements and services.

Generation and supply segment

The contribution margin in the Generation and supply segment totalled Euros 3,157 million in 2018, up Euros 373 million (+13.4%) from 2017, due mainly to the following factors:

- The decrease in power purchases (-3.1%) and fuel consumption (-1.1%) due mainly to lower thermal (-13.3%) and nuclear (-9.0%) output in the year, despite the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 57.3/MWh; +9.7%).
- The Euros 147 million (+68.7%) increase in the cost of carbon dioxide (CO_2) emission rights, despite lower thermal output (-13.3%), as a result of the increase in market prices.
- The Euros 71 million increase in income and expenses for the valuation of energy stocks due to changes in the valuation and settlement of gas and electricity derivatives (see Section 2.3.1. Income and 2.3.2. Operating expenses in this Consolidated Management Report).
- The Euros 61 million (-95.3%) reduction in costs as a result of the capitalisation under Non-current assets in the Consolidated Statement of Financial Position of the incremental costs of obtaining contracts with customers as of 1 January 2018 (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

Distribution segment

The contribution margin in the Distribution segment in 2018 totalled Euros 2,583 million, down Euros 7 million (-0.3%) from the year before.

Structure and other

The contribution margin for Structure and other was a negative Euros 112 million in 2018, down Euros 226 million from 2017.

The difference is mainly the result of the lower cost recognised for the Social Bonus in 2017 for Euros 222 million, under Order ETU/929/2017, of 28 September 2017, and Order ETU/1288/2017, of 22 December 2017, implementing the various rulings in this respect.

2.4.2. EBITDA

The table below presents the EBITDA of ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros

	EBITDA (2)			
	2018	**2017**	**% Var**	**% of total**
Generation and supply	1,617	1,350	19.8	44.6
Non-mainland generation (TNP)	356	452	(21.2)	9.8
Other generation and supply	1,261	898	40.4	34.8
Adjustments	-	-	-	-
Distribution	2,059	2,050	0.4	56.8
Structure and other (1)	(49)	142	(134.5)	(1.4)
TOTAL	**3,627**	**3,542**	**2.4**	**100.0**

(1) Structure, services and adjustments.
(2) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses – Other fixed operating expenses.

The following table contains the breakdown of personnel expenses and other fixed operating expenses for ENDESA's businesses in 2018 and variations compared with the previous year:

Millions of Euros

	Personnel expenses				Other fixed operating expenses			
	2018	2017	% Var	% of total	2018	2017	% Var	% of total
Generation and supply	520	478	8.8	54.9	1,103	998	10.5	83.3
Non-mainland generation (TNP)	85	84	1.2	9.0	174	159	9.4	13.1
Other generation and supply	435	394	10.4	45.9	934	845	10.5	70.5
Adjustments	-	-	-	-	(5)	(6)	(16.7)	(0.3)
Distribution	263	267	(1.5)	27.8	428	429	(0.2)	32.3
Structure and other (1)	164	172	(4.7)	17.3	(207)	(176)	17.6	(15.6)
TOTAL	**947**	**917**	**3.3**	**100.0**	**1,324**	**1,251**	**5.8**	**100.0**

(1) Structure, services and adjustments.

Generation and supply segment

In 2018, EBITDA for this segment was Euros 1,617 million (+19.8%). The assessment of the performance in 2018 must consider the increase of 13.4% in the contribution margin and the trend in personnel expenses (+8.8%) and other fixed operating expenses (+10.5%).

Distribution segment

EBITDA for this segment in 2018 was Euros 2,059 million, up 0.4%, as the decrease in the contribution margin (-0.3%) was offset by control over fixed operating costs (-0.7%).

Structure and other

EBITDA for the Structure and other segment decreased by Euros 191 million in 2018, including:

- A negative variation in the contribution margin triggered by the lower expense recognised for the Social Bonus in 2017.
- The decrease in personnel expenses (-4.7%) due mainly to the decline in the average headcount (-6.2%).
- The increase in other fixed operating expenses (+17.6%) was due mainly to the high cost of telecommunications services in line with the strategic digitalisation strategy.

2.4.3. EBIT

The table below presents EBIT of ENDESA's business units in 2018 and variations compared with the previous year:

Millions of Euros

	EBIT (2)			
	2018	2017	% Var	% of total
Generation and supply	588	488	20.5	30.6
Non-mainland Territories generation (TNP)	42	285	(85.3)	2.2
Other generation and supply	546	203	169.0	28.4
Adjustments	-	-	-	-
Distribution	1,429	1,453	(1.7)	74.5
Structure and other (1)	(98)	90	(208.9)	(5.1)
TOTAL	**1,919**	**2,031**	**(5.5)**	**100.0**

(1) Structure, services and adjustments.
(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

The breakdown of depreciation and amortisation, and impairment losses in ENDESA's businesses in 2018 and the year-on-year change are as follows:

Millions of Euros

	Depreciation and amortisation, and impairment losses			
	2018	2017	% Var	% of total
Generation and supply	1,029	862	19.4	60.2
Non-mainland Territories generation (TNP)	314	167	88.0	18.4
Other generation and supply	715	695	2.9	41.8
Adjustments	-	-	-	-
Distribution	630	597	5.5	36.9
Structure and other (1)	49	52	(5.8)	2.9
TOTAL	**1,708**	**1,511**	**13.0**	**100.0**

(1) Structure, services and adjustments.

Generation and supply segment

In 2018, EBIT for the Generation and supply segment was Euros 588 million (+20.5%), including:

– A 19.8% increase in EBITDA.

– An increase in "Depreciation and amortisation, and impairment losses" in the Consolidated Income Statement for 2018 of Euros 167 million (+19.4%) due to the impairment loss recognised related to the Thermal Power Plant of Alcudia (Balearic Islands) for Euros 158 million and the depreciation and amortisation charge for the incremental costs of obtaining contracts with customers in accordance with IFRS 15 Revenue from Contracts with Customers as of 1 January 2018 for Euros 54 million (see Sections 2.2. Changes in accounting policies and 2.3.2. Operating expenses in this Consolidated Management Report).

Distribution segment

EBIT for the Distribution segment in 2018 decreased by Euros 24 million (-1.7%) from 2017, mainly as a result of the Euros 33 million higher depreciation and amortisation expense.

Structure and other

EBIT for Structure and other in 2018 amounted to a negative Euros 98 million, due mostly to the decrease of Euros 191 million in EBITDA.

2.5. Consolidation scope

Corporate transactions related to capacity awarded in renewable power auctions

2018 featured the acquisitions of the following companies, all of which develop the wind and photovoltaic capacity awarded to ENEL Green Power España, S.L.U. (EGPE) in 2017 capacity auctions:

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

The price agreed for all these transactions was Euros 5 million (see Note 5.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 4.4. Cash flows in this Consolidated Management Report).

ENDESA has recognised the acquisition of these companies as a business combination. Using the acquisition method, it recognised definitively the assets acquired and liabilities assumed (net assets acquired) of each at their acquisition-date fair value in the following headings of the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	**8**
Property, plant and equipment	8
Current assets	**1**
Trade and other receivables	1
TOTAL ASSETS	**9**
Non-current liabilities	**1**
Deferred tax liabilities	1
Current liabilities	**3**
Current financial debt	3 (1)
TOTAL LIABILITIES	**4**
Fair value of net assets acquired	**5**

(1) Includes debts with Group and Associated Companies amounting to Euros 3 million.

The companies acquired have secured the permits and licences to carry out their projects and construction work is underway on the power facilities. No revenue from contracts with customers has been generated since the acquisition date.

At 31 December 2018, gross investments in these companies relating to the construction of the wind and photovoltaic power amounted to Euros 83 million (See Notes 5.1 and 6.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 4.5. Investments in this Consolidated Management Report).

Parques Eólicos Gestinver, S.L.U.

On 3 April 2018, an agreement was signed, through ENEL Green España, S.L.U. (EGPE), to acquire 100% of the share capital of Parques Eólicos Gestinver, S.L.U. and its wholly-owned (100%), Parques Eólicos Gestinver Gestión, S.L.U., for Euros 42 million (see Note 5.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

Parques Eólicos Gestinver, S.L.U. has installed wind power capacity of 132 MW, distributed across five wind farms located in the regions of Galicia and Catalonia.

Through this acquisition, ENDESA reinforces its presence in the Iberian generation market by expanding the portfolio of renewable assets in its production mix.

The net cash outflow from the acquisition of Parques Eólicos Gestinver, S.L.U. was calculated as follows (see Section 4.4. Cash Flows in this Consolidated Management Report):

Millions of Euros

	Sections	
Cash and cash equivalents of the acquiree		(12)
Net amount paid in cash (1) (2)		57
TOTAL	4.4	**45**

(1) The purchase costs recognised under "Other fixed operating expenses" in the Consolidated Income Statement amounted to Euros 1 million.
(2) Of this, Euros 42 million related to the price of the shareholding in that company and Euros 15 million to the subordinated debt it held with its former shareholders.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Parques Eólicos Gestinver, S.L.U. under the following items in the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	**181**
Property, plant and equipment	139
Intangible assets	34
Deferred tax assets	8
Current assets	**19**
Trade and other receivables	5
Current financial assets	2
Cash and cash equivalents	12
TOTAL ASSETS	**200**
Non-current liabilities	**140**
Non-current provisions	1
Non-current interest-bearing loans and borrowings (1)	130
Deferred tax liabilities	9
Current liabilities	**18**
Current interest-bearing loans and borrowings	12
Trade payables and other current liabilities	6
TOTAL LIABILITIES	**158**
Fair value of net assets acquired	**42**

(1) Includes bank borrowings amounting to Euros 104 million, (see Note 18.1 to the Consolidated Financial Statements for the year ended 31 December 2018), derivatives amounting to Euros 11 million, and debts to Group companies and associates amounting to Euros 15 million.

The contribution by the acquiree is as follows:

Millions of Euros

	3 April 2018 - 31 December 2018 (1)	2018 (2)
Ordinary Revenue	19	27
Profit/(loss) after tax	4	6

(1) From the acquisition date.
(2) Had the acquisition been carried out on 1 January 2018.

Eólica del Principado, S.A.U.

On 22 May 2018, ENEL Green Power España, S.L.U. (EGPE) acquired 60.0% of the share capital of Eólica del Principado, S.A.U., a company whose activity consists in the generation of electricity through renewable wind technology, in which it previously held a 40% stake (see Note 5.3 to the Consolidated Financial Statements for the year ended 31 December 2018).

As a result of this transaction, ENDESA went from having significant influence to full control of Eólica del Principado, S.A.U.

The net cash outflow arising from the acquisition of Eólica del Principado, S.A.U. amounted to less than Euros 1 million (see Section 4.4. Cash flows in this Consolidated Management Report).

The purchase price was definitively allocated on the basis of the acquisition-date fair values of the assets acquired and liabilities assumed (Net assets acquired) from Eólica del Principado, S.A.U. under the following headings in the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	**1**
Property, plant and equipment	1
TOTAL ASSETS	**1**
Fair value of net assets acquired	**1**

The contribution by the acquiree is as follows:

Millions of Euros

	22 May 2018 – 31 December 2018 (1)	2018 (2)
Ordinary Revenue	-	1
Profit/(loss) after tax	-	1

(1) From the acquisition date.
(2) Had the acquisition been carried out on 1 January 2018.

The net gain at the date control was obtained as a result of the fair-value measurement of the non-controlling interest of 40.0% in Eólica del Principado, S.A.U. was less than Euros 1 million (see Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2018).

Empresa de Alumbrado Eléctrico de Ceuta, S.A.

On 25 July 2018, ENDESA, through ENDESA Red, S.A.U., acquired 94.6% of the share capital of Empresa de Alumbrado Eléctrico de Ceuta, S.A., which owns 100% of Empresa de Alumbrado Eléctrico de Ceuta Comercialización de Referencia, S.A.U. and 100% of Empresa de Alumbrado Eléctrico de Ceuta Distribución, S.A.U., for Euros 83 million (see Note 5.4 to the Consolidated Financial Statements for the year ended 31 December 2018).

Empresa de Alumbrado Eléctrico de Ceuta, S.A. has more than 30,000 customers and is the leading electricity distribution and supply company in Ceuta, a region where ENDESA carries out electricity generation activities. Therefore, this acquisition is coherent with the strategy of driving growth in distribution and supply in Spain and Portugal.

The net cash outflow for the acquisition of Empresa de Alumbrado Eléctrico de Ceuta, S.A. was as follows:

Millions of Euros

	Sections	
Cash and cash equivalents of the acquiree		(2)
Net amount paid in cash (1)		83
TOTAL	**4.4**	**81**

(1) The purchase costs recognised under "Other fixed operating expenses" in the Consolidated Income Statement were less than Euros 1 million.

The purchase price was allocated definitively on the basis of the acquisition-date fair value of the assets acquired and liabilities assumed (Net assets acquired) from Empresa de Alumbrado Eléctrico de Ceuta, S.A. under the following items of the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	**84**
Property, plant and equipment	66
Investment property	4
Intangible assets	14
Current assets	**9**
Trade and other receivables	6
Current financial assets	1
Cash and cash equivalents	2
TOTAL ASSETS	**93**
NON-CONTROLLING INTERESTS	**4**
Non-current liabilities	**22**
Deferred income	15
Non-current provisions	1
Other non-current Liabilities	1
Deferred tax liabilities	5
Current liabilities	**5**
Trade payables and other current liabilities	5
TOTAL LIABILITIES	**27**
Fair value of net assets acquired	**62**

The difference between the cost of the business combination and the fair value of the assets and liabilities recognised gave rise to a goodwill of Euros 21 million for the synergies to be obtained in the transaction, based on the optimisation of ENDESA's position in the distribution market of the self-governing city of Ceuta, which will allow cost reductions to be achieved through joint management, improved grid operations and the pooling of processes (see Note 10 to the Consolidated Financial Statements for the year ended 31 December 2018).

Subsequently, in November and December 2018, an additional 1.7% of share capital was acquired for Euros 2 million (see Section 4.4. Cash flows in this Consolidated Management Report) leaving the shareholding in Empresa de Alumbrado Eléctrico de Ceuta, S.A. at 31 December 2018 at 96.3%. These transactions had a negative impact on the equity of non-controlling interests of Euros 2 million.

The contribution by the acquiree is as follows:

Millions of Euros

	25 July 2018 - 31 December 2018 (1)	2018 (2)
Ordinary Revenue	17	39
Profit/(loss) after tax	1	2

(1) From the acquisition date.
(2) Had the acquisition been carried out on 1 January 2018.

Front Marítim del Besòs, S.L.

On 18 December 2018, ENDESA Generación, S.A.U. acquired 61.37% of share capital in Front Marítim del Besòs, S.L. from Metrovacesa, S.A. for Euros 1,841. Although ENDESA holds a stake of over 50% in this company, the investment is classified as a "joint venture" since ENDESA, under the agreement entered into with its partners, has joint control over the company's net assets (see Notes 2.3.2 and 2.5.2 to the Consolidated Financial Statements for the year ended 31 December 2018).

On the same date, ENDESA Generación, S.A.U. and Metrovacesa, S.A., as partners of Front Marítim del Besòs, S.L., agreed to carry out a capital increase via a non-monetary contribution in proportion to their percentage holdings, whereby ENDESA Generación, S.A.U. contributed with certain lands it owned in the Tres Chimeneas area in Sant Adrià del Besòs (Barcelona) valued at Euros 92 million, producing a gross gain of Euros 34 million (see Section 2.3.5. Gains/(losses) on disposal of assets in this Consolidated Management Report).

2.6. Statistical appendix

Industrial Data

GWh

Electricity generation (1)	2018	2017	% Var
Mainland	**61,338**	**65,499**	**(6.4)**
Nuclear	24,067	26,448	(9.0)
Coal	19,924	22,303	(10.7)
Hydroelectric	8,339	5,004	66.6
Combined cycle (CCGT)	5,293	8,409	(37.1)
Renewables and cogeneration	3,715	3,335	11.4
Non-mainland Territories generation (TNP)	**12,855**	**13,149**	**(2.2)**
Coal	2,392	2,603	(8.1)
Fuel-gas	6,681	7,000	(4.6)
Combined cycles (CCGT)	3,664	3,440	6.5
Renewables and cogeneration	118	106	(11.3)
TOTAL	**74,193**	**78,648**	**(5.7)**

(1) At busbar cost.

MW

Gross installed capacity	31 December 2018	31 December 2017	% Var
Hydroelectric	4,753	4,752	-
Conventional thermal	8,077	8,130	(0.7)
Nuclear	3,443	3,443	-
Combined cycles	5,678	5,678	-
Renewables and cogeneration	1,815	1,675	8.4
TOTAL	**23,766**	**23,678**	0.4

MW

Net installed capacity	31 December 2018	31 December 2017	% Var
Hydroelectric	4,712	4,709	0.1
Conventional thermal	7,428	7,585	(2.1)
Nuclear	3,318	3,318	-
Combined cycles	5,445	5,445	-
Renewables and cogeneration	1,815	1,675	8.4
TOTAL	**22,718**	**22,732**	(0.1)

GWh

Gross electricity sales (1)	2018	2017	% Var
Regulated Price	14,432	15,263	(5.4)
Deregulated market	84,246	91,487	(7.9)
Deregulated market in Spain	73,971	79,747	(7.2)
Deregulated market outside Spain	10,275	11,740	(12.5)
TOTAL	**98,678**	**106,750**	**(7.6)**

(1) At busbar cost.

GWh

Net electricity sales (1)	2018	2017	% Var
Regulated Price	12,356	12,919	(4.4)
Deregulated market	77,283	83,594	(7.5)
Deregulated market in Spain	67,517	72,386	(6.7)
Deregulated market outside Spain	9,766	11,208	(12.9)
TOTAL	**89,639**	**96,513**	**(7.1)**

(1) Sales to end customers.

Thousands

Number of customers (electricity) (1)	31 December 2018	31 December 2017	% Var
Regulated market	5,029	5,255	(4.3)
Mainland Spain	4,246	4,416	(3.8)
Non-mainland Territories generation (TNP)	783	839	(6.7)
Deregulated market	5,725	5,593	2.4
Mainland Spain	4,627	4,601	0.6
Non-mainland Territories generation (TNP)	825	787	4.8
Outside Spain	273	205	33.2
TOTAL	**10,754**	**10,848**	**(0.9)**

(1) Supply points.

Percentage (%)

Electricity demand trend (1)	2018	2017
Mainland (2)	0.4	1.1
Non-mainland territories (TNP) (3)	(0.6)	2.6

(1) Source: Red Eléctrica de España, S.A. (REE).
(2) Adjusted for working days and temperature: +0.3% in 2018 and +1.6% in 2017.
(3) Adjusted for working days and temperature: -2.8% in 2018 and +3.4% in 2017.

GWh

Energy distributed (1)	2018	2017	% Var
Spain and Portugal	117,029	117,961	(0.8)

(1) At busbar cost.

km

Distribution and transmission networks	31 December 2018	31 December 2017	% Var
Spain and Portugal	319,613	317,782	0.6

Percentage (%)

Energy losses (1)	2018	2017
Spain and Portugal	10.7	10.6

(1) Source: In-house.

Minutes

Installed Capacity Equivalent Interruption Time (ICEIT)	2018	2017
Spain and Portugal (average) (1) (2)	65	62

(1) Corresponds to Spain.
(2) According to the calculation procedure set down by Royal Decree 1995/2000, of 1 December 2000.

Percentage (%)

Market share (electricity) (1)	31 December 2018	31 December 2017
Mainland generation	22.5	23.6
Distribution	43.6	44.1
Supply	33.4	35.4

(1) Source: In-house.

GWh

Gas sales (1)	2018	2017	% Var
Deregulated market	47,810	46,578	2.6
Regulated market	1,430	1,372	4.2
International market	25,270	24,523	3.0
Wholesale business	12,219	7,361	66.0
TOTAL	**86,729**	**79,834**	**8.6**

(1) Excluding own generation consumption.

Thousands

Number of customers (gas) (1)	31 December 2018	31 December 2017	% Var
Regulated market	233	246	(5.3)
Mainland Spain	208	219	(5.0)
Non-mainland Territories generation (TNP)	25	27	(7.4)
Deregulated market	1,371	1,314	4.3
Mainland Spain	1,230	1,205	2.1
Non-mainland Territories generation (TNP)	68	63	7.9
Outside Spain	73	46	58.7
TOTAL	**1,604**	**1,560**	**2.8**

(1) Supply points.

Percentage (%)

Gas demand trend (1)	2018	2017
Domestic market	(0.4)	9.1
Domestic conventional	4.5	5.1
Electricity sector	(18.3)	26.7

(1) Source: Enagás, S.A.

Percentage (%)

Market share (Gas) (1)	31 December 2018	31 December 2017
Deregulated market	16.3	16.1

(1) Source: In-house.

Financial Data

Millions of Euros

	Consolidated Income Statement		
	2018	2017	% Var
Revenue from sales	19,555	19,556	(0.0)
Contribution margin (1)	5,628	5,488	2.6
EBITDA (2)	3,627	3,542	2.4
EBIT (3)	1,919	2,031	(5.5)
Net income/(loss) (4)	1,417	1,463	(3.1)
Net ordinary income (5)	1,511	1,452	4.1

(1) Contribution margin = Income - Procurements and services.
(2) EBITDA = Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.
(3) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.
(4) Net income/(loss): Profit/(loss) of the Parent.
(5) Net ordinary income = Profit/(loss) of the Parent company - Gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million).

Euros

Valuation key figures	2018	2017	% Var
Earnings per share (1)	1.34	1.38	(3.2)
Net ordinary earnings per share (2)	1.43	1.37	4.1
Cash flow per share (3)	2.29	2.30	(0.7)
Book value per share (4)	8.54 (5)	8.59 (6)	(0.6)

(1) Earnings per share = Profit/(loss) of the Parent/ No. of shares at the end of the period.
(2) Ordinary earnings per share = Profit/(loss) of the Parent/ No. of shares at the end of the period.
(3) Cash flow per share = Net cash flows from operating activities / No. of shares at the end of the period.
(4) Book value per share = Equity of the Parent / No. of shares at the end of the period.
(5) At 31 December 2018
(6) At 31 December 2017

Millions of Euros

	Consolidated Statement of Financial Position		
	31 December 2018	31 December 2017	% Var
Total assets	31,656	31,037	2.0
Equity	9,181	9,233	(0.6)
Net financial debt (1)	5,770	4,985	15.7

(1) Net financial debt = Non-current interest-bearing loans and borrowings + Current interest-bearing loans and borrowings – Cash and cash equivalents – Derivatives recognised as financial assets.

Profitability indicators (%)	31 December 2018	31 December 2017
Return on equity (1)	15.63	16.21
Return on assets (2)	4.52	4.72
Economic profitability (3)	8.81	9.31
Return on capital employed (ROCE) (4)	4.80	5.08

(1) Return on equity = Profit/(loss) for the year of the Parent / Average equity of the Parent.
(2) Return on assets = Profit/(loss) for the year of the Parent / Average total assets.
(3) Economic profitability = EBIT / Average property, plant and equipment.
(4) Return on capital employed = Operating profit after tax / (Average non-current assets + Average current assets).

Financial indicators	31 December 2018	31 December 2017
Liquidity ratio (1)	0.73	0.73
Solvency ratio (2)	0.92	0.92
Debt ratio (3)	38.59	35.06
Debt coverage ratio (4)	1.59	1.41

(1) Liquidity = Current assets / Current liabilities.
(2) Solvency = (Equity + Non-current liabilities) / Non-current assets.
(3) Debt ratio = Net financial debt / (Equity + Net financial debt) (%).
(4) Debt coverage = Net financial debt / EBITDA.

3. Regulatory framework

Information on Spain's regulatory framework is set out in Note 4 to the Consolidated Financial Statements for the year ended 31 December 2018.

The main changes in the Spanish regulatory framework either approved in 2018 or with a material impact on the Consolidated Financial Statements for that year are described below.

Electricity tariff

Ministerial Order ETU/1282/2017, of 22 December 2017, establishing access tariffs for 2018, was published in the Official State Gazette on 27 December 2017. Under this Order, the access tariffs were unchanged.

Ministerial Order TEC/1366/2018, of 20 December 2018, establishing access tariffs for 2019, was published in the Official State Gazette on 22 December 2018. Electricity access tariffs remained unchanged in the Order. This Order repealed the incentive for availability of Order ITC/3127/2011, of 17 November 2011, until the capacity mechanisms are reviewed for adaptation to European regulations and the energy transition process.

Natural gas tariff

Under Order ETU/1283/2017, of 22 December 2017, access tariffs in force in 2017 were largely maintained, having updated the Last Resort Tariffs (LRT) with an average increase of 5% resulting from higher raw material costs.

On 30 June 2018, the Resolution of 28 June 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 July 2018, resulting in an average increase of approximately 3.4%, derived from the increase in the cost of the raw material.

On 29 September 2018, the Resolution of 25 September 2018 was published in the Official State Gazette (BOE), publishing the Last Resort Tariffs (LRT) for natural gas to be applied from 1 October 2018, resulting in an average increase of approximately 7.4%, compared to the previous period, derived from the increase in the cost of the raw material.

On 22 December 2018, Order TEC/1367/2018, of 20 December 2018, establishing access tariffs for gas for 2019, which remained unchanged, and on 28 December 2018, the Resolution of 26 December, publishing the Last Resort Tariffs (LRT) for natural gas applicable from 1 January 2019, implying an average reduction of approximately 4% due to lower raw material cost, were published in the Official State Gazette (BOE).

Energy efficiency

Law 18/2014 of 15 October 2014, approving urgent measures to support growth, competitiveness and efficiency, saw the creation of the Energy Efficiency National Fund with the aim of achieving energy savings.

Order ETU/257/2018 of 16 March 2018 entailed a contribution by ENDESA to the Energy Efficiency National Fund of Euros 29 million, corresponding to its 2018 obligations.

In December 2018, the Ministry for the Ecological Transition began processing a proposed Order establishing the contribution to the National Energy Efficiency Fund for 2019, of which ENDESA's share is Euros 28 million.

Social Bonus (or Social Tariff)

On 7 April 2018, Order ETU/361/2018, of 6 April 2018, was published, amending the Social Bonus application forms established in Order ETU/943/2017, of 6 October 2017, which implements Royal Decree 897/2017, of 6 October 2017, regulating the concept of vulnerable consumers, the Social Bonus and other protection measures for domestic consumers of electricity. Furthermore, this Order extended the existing transitional period until 8 October 2018 for consumers of electricity who, on the date of entry into force of Order ETU/943/2017, of 6 October 2017, were beneficiaries of the Social Bonus, to prove the status of vulnerable consumer in accordance with the provisions of Royal Decree 897/2017, of 6 October 2017. However, under Royal Decree Law 15/2018, of 5 October 2018, as described below, if these consumers had applied for the Social Bonus between 8 October 2018 and 31 December 2018, they could be able to benefit from the same as of 8 October 2018.

On 21 November 2018, Order TEC/1226/2018, of 13 November 2018, approving the Social Bonus for 2018 was published in the Official State Gazette (BOE), with ENDESA allocated a 37.15% share.

Public consultation of the Spanish Markets and Competition Commission (CNMC) on remuneration for regulated activities

On 27 July 2018, the Spanish Markets and Competition Commission (CNMC) began a public consultation on the calculation methodology used for the remuneration rate in the second regulatory period 2020-2025 for distribution, transmission, Non-mainland Territories (TNP) and renewables. As a result of the same, on 30 October 2018, the Spanish Markets and Competition Commission (CNMC) issued a report in which it proposed remuneration for distribution, transmission and Non-mainland Territories (TNP) systems of 5.58% and for Renewables of 7.09%.

Based on said report, on 28 December 2018 the Ministry for the Ecological Transition presented a draft law for the 2020-2025 rate of remuneration. This draft law established remuneration in the 2020-2025 period for transmission, distribution and generation in Non-mainland Territories systems (TNP) of 5.58% and a return of 7.09% on production from renewable energy sources, cogeneration, and waste. Furthermore, remuneration for renewable facilities under the remuneration regime prior to Royal Decree Law 9/2013, of 12 July 2013, will not be revised in the 2020-2031 period, with the current return of 7,389% being applicable, although compensation payments linked to unappealable court rulings will be deducted via settlements, based on the difference between 7.389% and 7.09%. However, facilities have a right to waive the same and adopt the general system.

Following the presentation of said draft law, the government approved Royal Decree Law 1/2019, of 11 January 2019, detailed below, which likewise includes aspects concerning the establishment of rates of remuneration.

Law 6/2018, of 3 July 2018, concerning General State Budgets for 2018

On 4 July 2018, Law 6/2018, of 3 July 2018, on the General State Budgets (PGE) for 2018, was published in the Official State Gazette (BOE). Among other aspects, it establishes that surplus income from the system may be used exceptionally in 2018 for compensation payments to settle litigation proceedings referring to Electricity Sector regulations that must be charged against General State Budgets (PGE) or the Electricity System.

These surpluses may equally be used, indefinitely, to pay off debt in the electricity system, or used as income accrued over several years in electricity system settlements. Further, the Law includes a provision that eliminates the need for a compatibility ruling for plants in the Non-mainland Territories (TNP) electricity system that have to make investments to comply with EU or Spanish regulatory requirements in order to continue operating, provided that these plants are necessary to guarantee an efficient supply.

Order TEC/1158/2018, of 29 October 2018, on the additional remuneration system for certain facilities in Non-mainland Territories (TNP) Electricity Systems

Pursuant to the introduction of Law 6/2018, of 3 July 2018, and in accordance with the power requirements for each non-mainland system determined by reports from the system operator, Order TEC/1158/2018, of 29 October 2018, was published in the Official State Gazette. The same envisages establishing an additional remuneration system for certain facilities in Gran Canaria, Tenerife and Menorca, based on the investments that must be implemented in order to comply with applicable environmental regulations (see Section 2.3.2. Operating expenses in this Consolidated Management Report).

Royal Decree 1048/2018, of 24 August 2018, on the electricity system shortfall of 2013

On 1 September 2018, Royal Decree 1048/2018, of 24 August 2018, was published in the Official State Gazette (BOE), amending the procedure for calculating the interest to be recognised for financing the electricity system deficit for 2013, so that said interest will be established from the moment that the corresponding contributions are made by agents and not just from 1 January of the following year. The total amount payable to the agents that financed the 2013 deficit is Euros 15 million, of which Euros 7 million correspond to ENDESA. The Royal Decree establishes that this methodology will also be applied in the event of any future shortfalls (see Section 2.3.3. Net financial profit/(loss) in this Consolidated Management Report).

Royal Decree Law 15/2018, of 5 October 2018, on urgent measures for energy transition and consumer protection

On 5 October 2018, the Council of Ministers approved Royal Decree Law 15/2018, on urgent measures for the energy transition and consumer protection, published in the Official State Gazette (BOE) on 6 October 2018. This Royal Decree Law contains a series of urgent measures aimed at providing greater support for vulnerable groups and increasing consumer protection through policies that allow tariffs to be more effectively adjusted to consumption. The law also implements measures to speed up the transition to a decarbonised economy based on renewable energies, driving energy efficiency and electric mobility.

The first block of measures is designed to protect vulnerable consumer groups. The number of beneficiaries eligible for the Social Bonus has been extended to include single-parent families, and families with grade 2 or 3 dependants that fall below certain income thresholds. Further, the cases in which supply may not be cut off due to payments in arrears for vulnerable consumers have been extended to include families approved by the social services with children under the age of 16, or dependants or disabled family members, where these amounts will be covered by the groups obliged to fund the Social Bonus. The maximum consumption levels with a right to a discount has also been increased. Regarding the beneficiaries of the previous Social Bonus, whose renewal period ended on 8 October 2018, the Royal Decree Law provides that those who, fulfilling the requirements of the new Social Bond, request it between 8 October 2018 and the 31December 2018, they would be applied with effect from 8 October 2018. Finally, a thermal Social Bonus for heating is created, which will be financed by the General State Budget (PGE). This Royal Decree Law contemplates the approval in 6 months of a National Strategy to Combat Energy Poverty. In this sense, on 19 December 2018, the Ministry for the Ecological Transition has begun a public consultation in this regard.

A second group of measures aims to protect consumers and includes more flexibility in terms of contracting power, in addition to obliging suppliers to include the amount that customers would have to pay if tariffs with time constraints were applied on their bills.

A third group of measures is designed to promote self-consumption, simplifying the types available and enabling shared self-consumption, while eliminating charges and tolls for self-consumption based on renewables, cogeneration or waste. The Royal Decree Law also features measures to simplify administrative and technical processes, especially for small power facilities. In development of what is established in the Royal Decree Law, the Ministry for the Ecological Transition has begun the processing of a Royal Decree Project.

The fourth block of measures seeks to increase the penetration of renewable energies and electric mobility. Therefore, to facilitate the commissioning of the renewable power awarded in recent auctions, the access and connection licences granted prior to Law 24/2013, of 26 December 2013, governing the electricity system, which would have expired on 31 December 2018, have been extended until 31 March 2020. With regard to electric mobility, the load manager role has been abolished to facilitate the deployment of these services.

The last block contains measures associated with fiscal aspects and System sustainability. For the last quarter of 2018 and the first quarter of 2019, the tax on the value of electricity production has been suspended and the special tax on hydrocarbons for electricity generation has been abolished. To ensure the sustainability of the electricity system, income that derives from carbon dioxide (CO_2) emissions rights auctions used to cover costs in the electricity system has been increased, and the system surplus will be used to reduce imbalances in 2018 and 2019.

Royal Decree Law 15/2018, of 5 October 2018, was approved by Spanish Parliament on 18 October 2018, having been approved for processing as a Draft Law.

Royal Decree Law 25/2018, of 21 December 2018, on urgent measures for a fair transition of coal mining and the sustainable development of the mining districts.

On 22 December 2018, this Royal Decree Law has been published in the Official State Gazette (BOE), which includes certain measures aimed at favoring a fair transition and the sustainable development of the mining districts affected by the facilities closure process. In addition, the Royal Decree Law incorporates a provision that establishes that in the year 2019, up to a maximum of Euros 1,000 million will be allocated from the proceeds from auctions of greenhouse gas emission rights to finance Electricity System costs, and up to a maximum of Euros 100 million for actions of the fair transition policy and the fight against climate change.

Order TEC/1380/2018, of 20 December 2018, establishing the conditions for subsidiaries to be granted for renewable energy facilities

Order TEC/1380/2018, of 20 December 2018, was published in the Official State Gazette (BOE) on 25 December 2018. Said Order establishes the conditions for support to be granted for investment in wind and solar power facilities in Non-mainland Territories (TNP) Electricity Systems, co-financed with funds from the European Regional Development Fund (ERDF).

On 27 December 2018, the Institute for Energy Diversification and Savings (IDAE) passed a resolution, convening auctions of subsidies for investment in wind facilities in the Canary Islands, with an allocation of Euros 80 million and maximum power of 217 MW.

Royal Decree Law 20/2018, of 7 December 2018, on urgent measures to drive the economic competitiveness of the industry and commerce sector in Spain

This Royal Decree Law, published in the Official State Gazette on 8 December, seeks to drive the competitiveness of the industrial sector via action to improve labour productivity, cut energy costs and bolster industrial security. Among other aspects, the Royal Decree Law introduces the concept of closed electricity distribution networks, which are already envisaged in EU regulations, and announced the preparation of a statute for electro-intensive industrial consumers, adapted to their specific requirements. The regulation likewise envisages extending the lives of certain high efficiency cogeneration facilities for 2 years.

Royal Decree Law 1/2019, of 11 January 2019, on urgent measures to adjust the duties of the Spanish Markets and Competition Commission (CNMC) to the requirements of EU law in relation to Directives 2009/72/CE and 2009/73/CE of the European Parliament and Council, of 13 July 2009, on common standards for the internal electricity and natural gas market

On 12 January 2019, the Official State Gazette (BOE) published this Royal Decree Law, intended to amend the duties of the Spanish Markets and Competition Commission (CNMC) to comply with EU legislation, following requests filed by EU authorities.

According to this Royal Decree Law, the Spanish Markets and Competition Commission (CNMC) will be responsible for approving, via circulars, aspects such as the structure, methodology and specific values of access tariffs for natural gas and electricity transmission and distribution networks, and for liquefied natural gas (LNG) plants; the methodology and parameters for establishing remuneration for the transmission and distribution of gas and electricity, liquefied natural gas plants (LNG), the gas System operator, and remuneration on transmission and distribution within the maximum limit established by the government.

The Ministry for the Ecological Transition will approve a series of energy policy guidelines that the Spanish Markets and Competition Commission (CNMC) will have to take into consideration, which will cover aspects

such as supply security, the economic and financial sustainability of the System, supply independence, air quality, efforts to combat climate change, demand management, selection of future technologies and rational use of energy. The Ministry for the Ecological Transition will have one month to approve the circulars of the Spanish Markets and Competition Commission (CNMC) concerning energy policy, or that have an impact on tariffs, remuneration on regulated activities, access and connection conditions, and the rules for operating the Electricity and Gas System. In the event of any discrepancy, a Cooperation Committee will work to reach an understanding.

In any case, the new duties of the Spanish Markets and Competition Commission (CNMC) will be applicable as of 1 January 2020. Furthermore, any procedures begun prior to this Royal Decree Law coming into force, as well as any procedure that, regardless of when it was initiated, refers to years prior to 2019, will be substantiated pursuant to previous regulations.

The Royal Decree Law likewise amends certain aspects of Law 24/2013, of 26 December 2013, on the electricity industry. Regarding the financial rate of remuneration on transmission and distribution, which by virtue of the Royal Decree Law will be established by the Spanish Markets and Competition Commission (CNMC), the government will set in law a maximum threshold for the same, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory period, plus a spread to be established for each regulatory period. If at the start of the new period said maximum threshold has not been established, the maximum threshold corresponding to the previous period will be extended, or failing this, the rate of remuneration from the previous period will be used.

As for generation operations adhering to the additional remuneration system in Non-mainland Territories (TNP), the rate of financial remuneration will be set by the government. This rate may be modified before the start of each regulatory period, linked to state 10-year bonds in the 24 months prior to the month of May in the year preceding the start of each new regulatory period, plus a spread to be established under law for each regulatory period. If at the start of a new regulatory period said rate of financial remuneration has not been established, that of the previous regulatory period will be deemed to be extended.

Finally, regarding facilities producing electricity from renewable energy sources, high efficiency cogeneration, and waste, using specific remuneration systems, in the review corresponding to each regulatory period the value on which the reasonable rate of return is based over the remaining regulatory life of standard facilities may be amended, and will be established under law.

4. Liquidity and capital resources

4.1. Financial management

Within the framework of an efficient cost management and optimisation policy, the finance function in Spain is centralised in ENDESA, S.A.

At the date of approval in this Consolidated Management Report, the Company had the necessary liquidity and access to medium/long-term financial resources to ensure the availability of the funds required to meet its future investment obligations and debt maturities.

ENDESA maintains the same principles of prudence as applied to date in its financing structure: obtaining medium/long-term funding that enables it to adjust its maturity calendar to the cash-flow generation capacity envisaged in the business plan. To do this, it:

- Uses external financing, especially through the banking and capital markets.
- Obtains funds from public authorities that offer attractive terms for very long-term loans.
- Has short-term financing in place that helps optimise the management of its working capital requirements and improve the overall cost of debt. This financing is obtained through bank credit lines with leading financial institutions or through the issue of Euro Commercial Paper (ECP).

ENDESA also carries out transactions with ENEL Group companies in which the applicable transfer pricing regulations are followed.

Financial position

Sovereign debt interest rates declined in the major European countries during 2018, with the exception of Italy where rates increased. The yield on the Spanish 10-year bond declined from 1.56% at the start of the year to 1.42% at the end of 2018, as did the yield on the German bond of the same term, which was down 18 basis points to 0.24%. As a result, country risk for Spain (the spread against the German 10-year bond) at the end of the reporting period 2018 stood at 118 basis points, a similar level to the end of the reporting period 2017. In other periphery Eurozone countries, the Portuguese risk premium stood at 148 basis points, in line with 2017, while the Italian risk premium widened to 250 basis points, from 158 b.p. at year-end 2017.

The ECB kept interest rates in 2018 at the historic low of 0% and ended the debt purchasing programme, known as Quantitative Easing (QE), in December.

In 2018, euro long-term interest rates (10-year swap) fell from 0.89% at the beginning of the year to 0.81% by year-end. The short-term interest rate (3-month Euribor) declined, ending the year at -0.31%. The long-term interest rate on the US dollar (USD) (10-year swap) rose in 2018 from 2.40% to 2.71%, while the 3-month interest rate on the US dollar (USD) increased in 2018 from 1.69% to 2.81%.

In 2018 the euro depreciated 4.5% compared to the US dollar (USD), causing the euro/US dollar (EUR/USD) exchange rate to drop from 1.20 at the beginning of the year to 1.15 at year-end.

Financial debt

As of 31 December 2018, ENDESA had net financial debt of Euros 5,770 million, an increase of Euros 785 million (+15.7%) compared to debt as per 31 December 2017.

The reconciliation of ENDESA's gross and net financial debt at 31 December 2018 and 2017 is as follows:

Millions of Euros

	Reconciliation of financial debt			
	31 December 2018	31 December 2017	Difference	% Var
Non-current interest-bearing loans and borrowings	4,975	4,414	561	12.7
Current interest-bearing loans and borrowings	1,046	978	68	7.0
Gross financial debt (1)	**6,021**	**5,392**	**629**	**11.7**
Cash and cash equivalents	(244)	(399)	155	(38.8)
Derivatives recognised as financial assets	(7)	(8)	1	(12.5)
Net financial debt	**5,770**	**4,985**	**785**	**15.7**

(1) At 31 December 2018, this includes Euros 6 million corresponding to financial derivatives recognised under financial liabilities (Euros 12 million at 31 December 2017).

For the purposes of assessing net financial debt in 2018, bear in mind that on 2 January 2018 ENDESA, S.A. paid shareholders an interim dividend against 2017 profits of Euros 0.70 per share, entailing a disbursement of Euros 741 million, and on 2 July 2018 it paid an additional final dividend against 2017 profits of Euros 0.682 per share gross, entailing a disbursement of Euros 722 million (see Section 4.4. Cash Flows and 5. Dividend Policy in this Consolidated Management Report).

The structure of ENDESA's gross financial debt at 31 December 2018 and 2017, was as follows:

Millions of Euros

	Structure of gross financial debt			
	31 December 2018	31 December 2017	Difference	% Var
Euro	6,021	5,392	629	11.7
TOTAL	**6,021**	**5,392**	**629**	**11.7**
Fixed rate	3,550	3,611	(61)	(1.7)
Floating rate	2,471	1,781	690	38.7
TOTAL	**6,021**	**5,392**	**629**	**11.7**
Average life (years) (1)	5.3	6.1	-	-
Average cost (%) (2)	1.9	2.1	-	-

(1) Average lifespan of gross financial debt (years) = (principal * number of days of term) / (principal in force at 31 December * 365 days).
(2) Average cost of gross financial debt (%) = (cost of gross financial debt) / gross average financial debt.

At 31 December 2018, 59% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 41% accrued interest at floating rates. At said date, 100% of the Company's gross financial debt was denominated in euros.

Information concerning the maturities of ENDESA's gross financial debt is set out in Note 18 to the Consolidated Financial Statements for the year ended 31 December 2018.

Main financial transactions

Within the framework of the financial transaction (ENDESA Network Modernisation) concluded with the European Investment Bank (EIB) in 2017, on 29 May 2018 a drawdown was made of Euros 500 million at a variable rate and maturing in 12 years, repayable as of 2022 (see Section 4.4 Cash Flows in this Consolidated Management Report).

In financial year 2018, the extension of the credit lines maturing in March 2020 (Euros 160 million) and March 2021 (Euros 1,825 million) was signed with different financial entities.

During fiscal year 2018, bank financing was also canceled, Project Finance format, of certain subsidiaries of ENEL Green Power Spain, S.L.U. (EGPE) for a total amount of Euros 160 million (see Section 4.4 Cash Flows of this Consolidated Management Report). This financing was pre-existing to the acquisition of these companies and has been refinanced with corporate resources under more competitive conditions.

On 21 December 2018, it was subscribed a financing, pending disbursement at the date of formulation of this Consolidated Management Report, with the European Investment Bank (EIB) amounting to Euros 335 million, with a maturity of 15 years and a three-year grace period.

In 2018, ENDESA maintained the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., and the outstanding balance at 31 December 2018 was Euros 905 million, renewable with the backing of irrevocable bank credit lines.

On 28 December 2018, the non-renewal of the uncommitted intercompany credit line signed with ENEL Finance International N.V., for Euros 1,500 million, was confirmed.

Liquidity

As of 31 December 2018, ENDESA's liquidity stood at Euros 3,040 million (Euros 3,495 million at 31 December 2017) as detailed below:

Millions of Euros

	Liquidity			
	31 December 2018	31 December 2017	Difference	% Var
Cash and cash equivalents	244	399	(155)	(38.8)
Unconditional availability in lines of credit (1)	2,796	3,096	(300)	(9.7)
TOTAL	**3,040**	**3,495**	**(455)**	**(13.0)**
Coverage of debt maturities (number of months) (2)	26	29	(3)	(10.3)

(1) At 31 December 2018 and 2017, Euros 1.000 million were accounted for by the committed and irrevocable credit line arranged with ENEL Finance International, N.V.

(2) Coverage of debt maturities (number of months) = maturity period (number of months) for vegetative debt that could be covered with the liquidity available.

Treasury investments considered as “Cash and cash equivalents” are high liquidity and entail no risk of changes in value, mature within 3 months from their contract date and accrue interest at the market rates for such instruments. Information on ENDESA's cash and cash equivalents is set out in Note 14 to the Consolidated Financial Statements for the year ended 31 December 2018.

Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 14 and 15.1.12 to the Consolidated Financial Statements for the year ended 31 December 2018.

4.2. Capital management

ENDESA's capital management focuses on maintaining a solid financial structure that optimises the cost of capital and the availability of financial resources to guarantee business continuity over the long term. This policy of financial prudence makes it possible to maintain an adequate level of value creation for shareholders while guaranteeing ENDESA's liquidity and solvency.

ENDESA considers its consolidated leverage ratio to be an indicator of its ongoing financial position. Details of this ratio at 31 December 2018 and 2017 are as follows:

Millions of Euros

	Leverage ratio (1)	
	31 December 2018	31 December 2017
Net financial debt:	**5,770**	**4,985**
Non-current interest-bearing loans and borrowings	4,975	4,414
Current interest-bearing loans and borrowings	1,046	978
Cash and cash equivalents	(244)	(399)
Financial Derivatives recognised as financial assets	(7)	(8)
Equity:	**9,181**	**9,233**
Of the Parent	9,037	9,096
Of non-controlling interests	144	137
Leverage (%)	**62.85**	**53.99**

(1) Leverage (%) = Net financial debt / equity.

The Company's directors consider that its leverage will enable it to optimise the cost of capital while maintaining a high solvency ratio. Therefore, in due consideration of expectations of earnings and the investment plan, the future dividend policy will maintain a leverage ratio to achieve the aforementioned capital management target.

At the date on which this Consolidated Management Report was drawn up, ENDESA had no commitments to obtaining funds through its own sources of finance.

Information on capital management is provided in Note 15.1.11 to the Consolidated Financial Statements for the year ended 31 December 2018.

Information on the investments plan and shareholder remuneration is provided, respectively, in Sections 6.3. Main Financial Indicators and 5. Dividend Policy in this Consolidated Management Report.

4.3. Credit rating management

In 2018, volatility returned to fixed income yields and prices. In international sovereign debt markets, a significant gulf opened between US 10-year yields and their European counterparts. In Eurozone bond markets the strain mainly focused on Italian bonds, whose risk premium against the 10-year benchmark German bonds came to be above 300 basis points, closing the year at 250 points basic.

The Spanish risk premium, which compares Spanish and German bonds, closed the year at 118 basis points, 4 points more than at the start of 2018. The annual high was observed on 29 May 2018, at 134.4 basis points, triggered by political instability following a motion of censure, which led to a changeover of government. There was a subsequent recovery, dipping to below 100 basis points in the following days.

The major rating agencies endorsed this relative calm. On 19 January 2018, the Fitch rating agency upgraded the sovereign rating for Spain to A-, with a stable outlook. On 23 March 2018 Standard & Poor's likewise improved the sovereign rating for Spain to A-/A-2, with positive outlook. While Moody's lifted the sovereign rating for Spain to Baa1 with stable outlook.

Electricity sector fundamentals remained healthy both in terms of demand stability and tariff sufficiency.

As for ENDESA in 2018, on 19 February 2018 the Fitch rating agency confirmed its rating of BBB+ with a stable outlook. While on 1 August 2018 the Moody's agency restated its Baa2 rating, likewise with stable outlook.

Subsequently, on 11 February 2019, Fitch Ratings raised ENDESA's long-term credit rating from BBB+ to A- level with a stable outlook, maintaining ENDESA's short-term credit rating in F2.

Developments regarding ENDESA's credit ratings is as follows:

	Credit rating					
	31 December 2018 (1)			31 December 2017 (1)		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB+	A-2	Stable	BBB+	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	A-	F2	Stable	BBB+	F2	Stable

(1) At the respective dates of authorisation of the Consolidated Management Report.

ENDESA's credit rating is conditioned by the rating of its parent company ENEL, based on the methods employed by rating agencies, and, as of 31 December 2018, has been classified as “investment grade” by all the rating agencies.

ENDESA works to maintain its investment grade credit rating in order to efficiently access money markets and bank financing, and to obtain preferential terms from its main suppliers.

4.4. Cash flows

At 31 December 2018 cash and cash equivalents stood at Euros 244 million (Euros 399 million at 31 December 2017) (see Section 4.1. Financial Management in this Consolidated Management Report).

In 2018 and 2017 ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros

	Statement of cash flows			
	2018	2017	Difference	% Var
Net cash flows from operating activities	2,420	2,438	(18)	(0.7)
Net cash flows used in investing activities	(1,627)	(1,115)	(512)	45.9
Net cash flows used in financing activities	(948)	(1,342)	394	(29.4)

In 2018, net cash flows from operating activities (Euros 2,420 million) and the Euros 155 million decline in cash and cash equivalents helped cover the net investment required to conduct ENDESA's businesses (Euros 1,627 million), in addition to net cash flows from financing activities (Euros 948 million).

Information on ENDESA's consolidated statements of cash flows is set out in Note 33 to the Consolidated Financial Statements for the year ended 31 December 2018.

Net cash flows from operating activities

In 2018, net cash flows from operating activities amounted to Euros 2,420 million (Euros 2,438 million in 2017), with the same being as follows:

Millions of Euros

	2018	2017	Difference	% Var
Profit before tax and non-controlling interests	1,818	1,900	(82)	(4.3)
Adjustments for:	1,910	1,579	331	21.0
Depreciation and amortisation, and impairment losses	1,708	1,511	197	13.0
Other adjustments of the Result (net)	202	68	134	197.1
Changes in working capital:	(653)	(370)	(283)	76.5
Trade and other receivables	298	(387)	685	(177.0)
Inventories	(361)	(241)	(120)	49.8
Current financial assets	(285)	(554)	269	(48.6)
Trade payables and other current liabilities	(305)	812	(1,117)	(137.6)
Other cash flows from/(used in) operating activities:	(655)	(671)	16	(2.4)
Interest received	29	44	(15)	(34.1)
Dividends received	30	27	3	11.1
Interest paid	(142)	(134)	(8)	6.0
Income tax paid	(326)	(350)	24	(6.9)
Other proceeds from/(payments for) operating activities (1)	(246)	(258)	12	(4.7)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,420**	**2,438**	(18)	(0.7)

(1) Including provisions payments.

The variations in the different items determining the net cash flows from operating activities include:

- Higher profit before tax and non-controlling interests net of depreciation and amortisation and other adjustments for the year (Euros 249 million).

– Changes in working capital between the two years amounting to Euros 283 million, mainly as a result of an increase in payments to commercial creditors amounting to Euros 1,117 million, a positive trend from trade and other receivables amounting to Euros 685 million, and higher receipts linked to the extra-costs of Non-mainland Territories (TNP) generation, amounting to Euros 397 million (see Notes 4, 13, 19.1.1 and 23 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 3. Regulatory Framework in this Consolidated Management Report).

  In 2018, the company also continued its active policy concerning the management of current assets and current liabilities, focused on, among other aspects, improving processes, accounts receivable factoring and agreements to extend payment periods with suppliers (see Notes 13 and 23 to the Consolidated Financial Statements corresponding to the year ending 31 December 2018).

At 31 December 2018 and 2017, working capital broke down as follows:

Millions of Euros

	Working capital	
	31 December 2018	31 December 2017
Current assets (1)	**5,410**	**5,131**
Inventories (2)	1,473	1,267
Trade and other receivables (3)	2,955	3,100
Current financial assets (4)	982 (5)	764 (6)
Current Liabilities (7)	**6,648**	**6,557**
Current provisions (8)	571	425
Trade payables and other current liabilities (9)	6,077 (10)	6,132 (11)

(1) Excluding "Cash and cash equivalents" and Financial derivative assets corresponding to financial debt.
(2) See Note 12 to the Consolidated Financial Statements for the year ended 31 December 2018.
(3) See Note 13 to the Consolidated Financial Statements for the year ended 31 December 2018.
(4) See Note 19 to the Consolidated Financial Statements for the year ended 31 December 2018.
(5) Includes Euros 236 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 83 million linked to remuneration for the electricity distribution activity and Euros 609 million corresponding to the compensations for the extra-costs of Non-mainland Territories generation (TNP).
(6) Includes Euros 222 million corresponding to collection rights for financing of the deficit from regulated activities, Euros 70 million linked to remuneration for the electricity distribution activity and Euros 304 million corresponding to the compensations for the extra-costs of Non-mainland Territories generation (TNP).
(7) Excluding "Current financial debt" and Financial derivative liabilities corresponding to financial debt.
(8) See Note 24 to the Consolidated Financial Statements for the year ended 31 December 2018.
(9) See Note 23 to the Consolidated Financial Statements for the year ended 31 December 2018.
(10) Includes the interim dividend for 2018 results, amounting to Euros 741 million, paid 2 January 2019 (see Note 15.1.9 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 5. Dividend policy in this Consolidated Management Report).
(11) Includes the interim dividend for 2017 results, amounting to Euros 741 million, paid 2 January 2018 (see Notes 15.1.9 and 15.1.11 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 5. Dividend policy in this Consolidated Management Report).

Net cash flows used in investing activities

During 2018, net cash flows used in investing activities amounted to Euros 1,627 million (Euros 1,115 million in 2017) and include, among other aspects:

– The net cash flows used in investing activities included the acquisition of property, plant and equipment and intangible assets:

Millions of Euros

	2018	2017
Acquisitions of property, plant and equipment and intangible assets	**(1,425)**	**(1,078)**
Acquisitions of property, plant and equipment	(1,203)	(978)
Acquisitions of intangible assets	(231)	(133)
Facilities transferred from customers	74	101
Suppliers of property, plant and equipment	(65)	(68)
Proceeds from sales of property, plant and equipment and intangible assets	**8**	**15**
Grants and other deferred income	**86**	**92**
TOTAL	**(1,331)**	**(971)**

– The payments of the investments and/or collections of the disposals in shareholdings in Group Companies as detailed below:

Millions of Euros

	Sections	2018	2017
Investments in shareholdings in Group companies		**(136)**	**(2)**
Corporate transactions related to capacity awarded in renewable power auctions	2.5	(5)	(1)
Parques Eólicos Gestinver, S.L.U.	2.5	(45)	-
Eólica del Principado, S.A.U.	2.5	(1)	-
Empresa de Alumbrado Eléctrico de Ceuta, S.A.	2.5	(83)	-
Front Marítim del Besòs, S.L.	2.5	(1)	-
Eléctrica del Ebro, S.A.U.		(1)	-
Eléctrica de Jafre, S.A.		-	(1)
Disposals of shareholdings in group companies		**20**	**16**
Nueva Marina Real Estate, S.L. (1)		20	-
Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.		-	16
TOTAL		**(116)**	**14**

(1) Sale formalised in 2017.

Net cash flows used in financing activities

During 2018, net cash flows used in financing activities amounted to Euros 948 million (Euros 1,342 million in 2017) and mainly include the following aspects:

– Cash flows from equity instruments:

Millions of Euros

	2018	2017
Capital reduction at Eólica Valle del Ebro, S.A.	(1)	-
Capital contribution by Tauste Energía Distribuida, S.L.	3	-
Capital contribution by Bosa del Ebro, S.L.	3	-
Acquisition of non-controlling interests in Productor Regional de Energía Renovable, S.A.U. and Productor Regional de Energías Renovables III, S.A.U.	-	(3)
TOTAL	5	(3)

– Proceeds from the following non-current borrowings:

Millions of Euros

	NOTE	2018	2017
Proceeds from the European Investment Bank (EIB)	4.1	500	300
Proceeds from credit lines		206	-
Other		15	15
TOTAL		**721**	**315**

– Repayments of the following non-current borrowings:

Millions of Euros

	Note	2018	2017
Repayment of bank loan of Productor Regional de Energía Renovable, S.A.U.	4.1	(44)	-
Repayment of Credit Lines		(12)	-
Repayment of Natixis loans		-	(21)
Repayment of bonds issued by International ENDESA B.V.		-	(20)
Other		-	(33)
TOTAL		**(56)**	**(74)**

– Repayments and proceeds from the following current borrowings:

Millions of Euros

	Sections	2018	2017
Repayments			
Repayments of ECP issued by International ENDESA B.V.		(7,406)	(5,604)
Repayments of ENEL Finance B.V. credit lines		(6,600)	(2,150)
Repayment of Parque Eólico Gestinver, S.L.U. bank loan	4.1	(116)	-
Repayment of Instituto de Crédito Oficial (ICO) loan		-	(45)
Repayments of bonds issued by ENDESA Capital, S.A.U.		-	(36)
Repayment of European Investment Bank (EIB) loan		-	(13)
Other		(95)	(121)
Proceeds			
Emissions of ECP Issued by International ENDESA B.V.		7,422	5,561
Proceeds from ENEL Finance B.V. credit lines		6,600	2,150
Other		49	93
TOTAL		**(146)**	**(165)**

– Payment of the following dividends:

Millions of Euros

	Sections	2018	2017
Dividends of the Parent paid		(1,463)	(1,411)
Dividends to non-controlling interests paid (1)		(9)	(4)
TOTAL		**(1,472)**	**(1,415)**

(1) Corresponding to companies of ENEL Green Power España, S.L.U. (EGPE).

4.5. Investments

In 2018 ENDESA's gross investments totalled Euros 1,470 million (Euros 1,175 million in 2017), as follows:

Millions of Euros

	Investments(1)		
	2018	2017	% Var
Generation and supply	585	358	63.4
Distribution	609	610	(0.2)
Other	9	10	(10.0)
TOTAL PROPERTY, PLANT AND EQUIPMENT (2)	**1,203**	**978**	**23.0**
Generation and supply	140	48	191.7
Distribution	61	47	29.8
Other	30	38	(21.1)
TOTAL INTANGIBLE ASSETS (3)	**231**	**133**	**73.7**
FINANCIAL INVESTMENTS	**36**	**64**	**(43.8)**
TOTAL GROSS INVESTMENTS	**1,470**	**1,175**	**25.1**
TOTAL NET INVESTMENTS (4)	**1,310**	**982**	**33.4**

(1) Does not include business combinations made during the year (see Section 2.5. Consolidation Scope in this Consolidated Management Report).
(2) See Note 6.1 to the Consolidated Financial Statements for the year ended 31 December 2018.
(3) See Note 8.1 to the Consolidated Financial Statements for the year ended 31 December 2018.
(4) Net investments = Gross investments - Capital grants and transferred facilities.

Investments in Total Property, Plant and Equipment

Gross investments in generation during 2018 related largely to investments into the construction of the wind and photovoltaic power capacity awarded in auctions during 2017, amounting to Euros 191 million, of which Euros 127 million correspond to the companies acquired and incorporated in relation to the renewable auctions (see Notes 4 and 5.1 to the Consolidated Financial Statements for the year ended 31 December 2018 and Section 2.5. Consolidation Scope in this Consolidated Management Report).

Investments have also been made in plants that were already operational on 31 December 2017, including an investment of Euros 3 million in the Thermal Plant Litoral of Almería and the Euros 43 million investment in the Thermal Plant of As Pontes, bringing the same into line with the Industrial Emissions Directive (IED).

Gross investments in supply correspond mainly to the development of activity related to new products and services amounting to Euros 17 million.

Gross investments in distribution are related with grid extensions and expenditure aimed at optimising the grid to ensure greater efficiency and service quality. It also included investments for the widespread installation of remote management smart meters and their operating systems.

Investment in intangible assets

Gross investments in intangible assets in 2018 correspond to IT applications and ongoing investments in ICT activities, for the sum of Euros 155 million, among which are those associated with the strategic objective of digitalisation, and the activation of incremental costs incurred due to the acquisition of contracts with customers for the sum of Euros 70 million (see Section 2.2. Changes in accounting policies in this Consolidated Management Report).

Financial investments

The gross investments in 2018 include, primarily, guarantees and deposits amounting to Euros 23 million.

4.6. Contractual obligations and off-balance sheet obligations

Information concerning future purchase commitments is provided in Notes 6, 8, 12 and 13 to the Consolidated Financial Statements for the year ended 31 December 2018, broken down as follows:

Millions of Euros

	Future purchase commitments	
	31 December 2018	31 December 2017
Property, plant and equipment	858	364
Intangible assets	29	7
Financial assets	-	-
Provision of Services and Rights of Use	227	105
Purchases of fuel stocks and others	17,246	18,739
Purchases of fuel stocks	17,105	18,656
Electricity purchases	39	17
Purchases of carbon dioxide (CO_2) emission rights, Certified Emission Reductions CERs and ERUs	102	66
TOTAL	**18,360**	**19,215**

ENDESA has no special purpose entities, understood as entities that ENDESA, even when not holding a controlling interest, effectively controls, meaning that it substantially obtains most of the profits earned by the entity and retains most of the risks involved.

5. Dividend policy

The Board of Directors of ENDESA, S.A. operates an economic-financial strategy to generate a significant amount of cash to maintain Company debt levels and maximise shareholder remuneration. This also guarantees the sustainability of its business project.

As a result of this economic-financial strategy, unless any exceptional circumstances arise, which will be duly announced, at a meeting on 20 November 2018 the Board of Directors of ENDESA, S.A. approved the following shareholder remuneration policy for 2018-2021:

- 2018 to 2020: the ordinary dividend per share agreed to be distributed with a charge to those years shall be equal to 100% of the ordinary net profit attributed to the Parent Company in the Consolidated Financial Statements of the Group headed by it, with a minimum equal to Euros 1.33 gross per share for the financial year 2018.

- 2021: the ordinary dividend per share to be distributed in this year will be the equivalent to 80% of ordinary net profit attributable to the Parent set down in the consolidated annual financial statements of the Group headed by this company.

- The intention of the Board of Directors of ENDESA, S.A. is that the ordinary dividend will be paid solely in cash in two instalments (January and July) on a given date to be determined in each case, which will be duly notified.

- Notwithstanding the foregoing, ENDESA's capacity to pay out dividends to its shareholders depends on numerous factors, including the generation of profit and the availability of unrestricted reserves, and, therefore, the Company cannot ensure that dividends will be paid out in future years or the amount of such dividends if paid.

With regard to the year 2018, At its meeting held on 20 November 2018, the Board of Directors of ENDESA, S.A. resolved to distribute to its shareholders an interim dividend out of 2018 profit for a gross amount of EUR 0.70 per share, for a total of Euros 741 million on 2 January 2019.

The proposed distribution of profit in 2018 to be presented for approval at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 1.427 per share. Taking into account the interim dividend referred to in the preceding paragraph, the final dividend in respect of 2018 will be a gross amount of Euros 0.727 per share.

Details of ENDESA, S.A.'s per-share dividends in 2018 and 2017 are as follows:

		2018	2017	% Var
Share capital	Millions of euros	1,270.50	1,270.50	-
Number of shares		1,058,752,117	1,058,752,117	-
Consolidated net income	Millions of Euros	1,417	1,463	(3.1)
Consolidated net ordinary income	Millions of Euros	1,511	1,452	4.1
Individual net income	Millions of euros	1,511	1,491	1.3
Net earnings per share (1)	Euros	1.338	1.382	(3.2)
Ordinary net earnings per share (2)	Euros	1.427	1.371	4.1
Gross dividend per share	Euros	1.427 (3)	1.382 (4)	(3.3)
Consolidated pay-out (5)	(%)	106.6	100.0	-
Consolidated ordinary pay-out (6)	(%)	100.0	100.8	-
Individual pay-out (7)	(%)	100.0	98.1	-

(1) Net earnings per share (Euros) = Profit/(loss) of the Parent/ No. of shares at the end of the period.
(2) Ordinary net earnings per share (Euros) = Net ordinary income of the Parent/ No. of Shares at the end of the period.
(3) Gross interim dividend of Euros 0.7 per share paid on 2 January 2019, plus a gross final dividend of Euros 0.727 per share pending approval by the ENDESA, S.A. General Shareholders' Meeting.
(4) Gross interim dividend of Euros 0.7 per share, paid out on 2 January 2018 plus the gross final dividend of Euros 0.682 per share paid out on 2 July 2018.
(5) Consolidated pay-out (%) = (Gross dividend per share * Number of shares at the end of the reporting period) / Profit/loss) of the Parent.
(6) Consolidated ordinary pay-out (%) = (Gross dividend per share * Shares at the end of the reporting period) / Net ordinary income of the Parent.
(7) Individual pay-out (%) = (Gross dividend per share * Number of shares at the end of the reporting period) / Profit/(loss) of ENDESA, S.A.

APPENDIX I

Alternative Performance Measures

Alternative performance measures (APMs)	Unit	Definition	Reconciliation of alternative performance measures (APMs)		Relevance of use
			31 December 2018	31 December 2017	
EBITDA	Millions of Euros	Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses	3,627 MM€ = 20,195 MM€ - 14,567 MM€ + 270 MM€ - 947 MM€ – 1,324 MM€	3,542 MM€ = 20,057 MM€ - 14,569 MM€ + 222 MM€ - 917 MM€ – 1,251 MM€	Measure of operating return excluding interest, taxes, provisions and amortisation
EBIT	Millions of Euros	EBITDA - Depreciation and amortisation, and impairment losses	1,919 MM€ = 3,627 MM€ – 1,708 MM€	2,031 MM€ = 3,542 MM€ – 1,511 MM€	Measure of operating return excluding interest and taxes
Net ordinary income	Millions of Euros	Profit/(loss) of the Parent - Net gains/(losses) on disposal of non-financial assets (of over Euros 10 million) - Net impairment losses on non-financial assets (of over Euros 10 million)).	1,511 MM€ = 1,417 MM€ - 25 MM€ + 119 MM€	1,452 MM€ = 1,463 MM€ - 11 MM€	Measure of profit for the period stripping out extraordinary items in excess of Euros 10 million.
Contribution margin	Millions of Euros	Income - Procurements and services	5,628 MM€ = 20,195 MM€ – 14,567 MM€	5,488 MM€ = 20,057 MM€ – 14,569 MM€	Measure of operating return including direct variable production costs
Procurements and services	Millions of Euros	Power purchases + Fuel consumption + Transport costs + Other variable procurements and services	14,567 MM€ = 4,784 MM€ + 2,269 MM€ + 5,463 MM€ + 2,051 MM€	14,569 MM€ = 4,933 MM€ + 2,294 MM€ + 5,652 MM€ + 1,690 MM€	Goods and services for production
Net financial profit/(loss)	Millions of Euros	Financial income - Financial expense +- Net exchange differences	(139) MM€ = 36 MM€ - 173 MM€ - 2 MM€	(123) MM€ = 51 MM€ - 178 MM€ + 4 MM€	Measure of financial cost
Net financial expense	Millions of Euros	Financial income - Financial expense	(137) MM€ = 36 MM€ - 173 MM€	(127) MM€ = 51 MM€ - 178 MM€	Measure of financial cost
Net investment	Millions of Euros	Gross investments - Capital grants and transferred facilities	1,310 MM€ = 1,470 MM€ – 160 MM€	982 MM€ = 1,175 MM€ – 193 MM€	Measure of investment activity
Net financial debt	Millions of Euros	Non-current borrowings + Current borrowings – Cash and cash equivalents – Financial derivatives recognised under financial assets	5,770 MM€ = 4,975 MM€ + 1,046 MM€ - 244 MM€ - 7 MM€	4,985 MM€ = 4,414 MM€ + 978 MM€ - 399 MM€ - 8 MM€	Short and long-term financial borrowings, less cash and financial investment cash equivalents
Leverage	%	Net financial debt / Equity	62.85% = 5,770 MM€ / 9,181 MM€	53.99% = 4,985 MM€ / 9,233 MM€	Measure of the weighting of external funds in the financing of business activities
Debt	%	Net financial debt / (Equity + Net financial debt)	38.59% = 5,770 MM€ / (9,181 MM€ + 5,770 MM€)	35.06% = 4,985 MM€ / (9,233 MM€ + 4,985 MM€)	Measure of the weighting of external funds in the financing of business activities
Average life of gross financial debt	Number of years	(Principal * Number of valid days) / (Valid principal at the end of the reporting period * Number of days in the period)	5.3 years = 32,163 / 6,015	6.1 years = 32,944 / 5,380	Measure of the duration of borrowings to maturity
Average cost of gross financial debt	%	(Cost of gross financial debt) / Gross average financial debt	1.9% = 126 MM€ / 6,777 MM€	2.1% = 130 MM€ / 6,082 MM€	Measure of the effective rate of borrowings
Debt coverage ratio	Number of months	Maturity period (months) for vegetative debt that could be covered with the liquidity available	26 months	29 months	Measure of the capacity to meet debt maturities
Return on equity	%	Profit/(loss) of the Parent / Equity of the Parent (n) + Equity of the Parent (n-1) / 2)	15.63% = 1,417 MM€ / (9,037 + 9,096 / 2) MM€	16.21% = 1,463 MM€ / (9,096 + 8,952 / 2) MM€	Measure of the capacity to generate profits on shareholder investments
Return on assets	%	Profit/(loss) of the Parent / Total assets (n) + Total assets (n-1) / 2)	4.52% = 1,417 MM€ / (31,656 + 31,037 / 2) MM€	4.72% = 1,463 MM€ / (31,037 + 30,960 / 2) MM€	Measure of business profitability
Economic profitability	%	EBIT / (PP&E (n) + PP&E (n-1) / 2)	8.81% = 1,919 MM€ / (21,840 + 21,727 / 2) MM€	9.31% = 2,031 MM€ / (21,727 + 21,891 / 2) MM€	Measure of the capacity to generate income from invested assets and capital
Return on capital employed (ROCE)	%	Profit from operations after tax / ((Non-current assets (n) + Non-current assets (n-1) / 2) + (Current assets (n) + Current assets (n-1) / 2))	4.80% = 1,505.2 MM€ / (26,001 + 25,507 / 2) + (5,655 + 5,530 / 2) MM€	5.08% = 1,574.6 MM€ / (25,507 + 25,525 / 2) + (5,530 + 5,435 / 2) MM€	Measure of the return on invested capital
Liquidity	N/A	Current assets / Current liabilities.	0.73 = 5,655 MM€ / 7,694 MM€	0.73 = 5,530 MM€ / 7,535 MM€	Measure of the capacity to meet short term commitments
Solvency	N/A	(Equity + Non-current liabilities) / Non-current assets	0.92 = (9,181 MM€ + 14,781 MM€) / 26,001 MM€	0.92 = (9,233 MM€ + 14,269 MM€) / 25,507 MM€	Measure of the capacity to meet obligations
Debt coverage	N/A	Net financial debt / EBITDA	1.59 = 5,770 MM€ / 3,627 MM€	1.41 = 4,985 MM€ / 3,542 MM€	Measure of the amount of available cash flow to meet payments of principal on borrowings
Net earnings per share	Euros	Profit/(loss) of the Parent / Shares at the end of reporting period	1.339 € = 1,417 MM€ / 1,058,752.117 shares	1.382 € = 1,463 MM€ / 1,058,752,117 shares	Measure of the portion of net income corresponding to each share outstanding
Ordinary net earnings per share	Euros	Net ordinary income of the Parent / Shares at end of the reporting period	1.427 € = 1,511 MM€ / 1,058,752,117 shares	1.371 € = 1,452 MM€ / 1,058,752,117 shares	Measure of the portion of net profit corresponding to each share outstanding
Cash flow per share	Euros	Net cash flow from operating activities / Number of shares at the end of the reporting period	2.286 € = 2,420 MM€ / 1,058,752,117 shares	2.303 € = 2,438 MM€ / 1,058,752,117 shares	Measure of the portion of funds corresponding to each share outstanding
Book value per share	Euros	Equity of the Parent / Number of shares at the end of the reporting period	8.536 € = 9,037 MM€ / 1,058,752,117 shares	8.591 € = 9,096 MM€ / 1,058,752,117 shares	Measure of the portion of own funds corresponding to each share outstanding
Market cap	Millions of Euros	Number of shares at the end of the reporting period * Share price at the end of the reporting period	21,313 MM€ = 1,058,752,117 shares * 20.130 €	18,904 MM€ = 1,058,752,117 shares * 17.855 €	Measure of the total enterprise value according to the share price
Price to earnings ratio (P.E.R.)	N/A	Share price at the end of the reporting period / Net earnings per share.	15.03 = 20,130 € / 1.339 €	12.92 = 17,855 € / 1.382 €	Measure indicating the number of times earnings per share can be divided into the market price of the shares
Price / Carrying amount	N/A	Market cap / Equity of the Parent	2.36 = 21,313 MM€ / 9,037 MM€	2.08 = 18,904 MM€ / 9,096 MM€	Measure comparing the total enterprise value according to the share price with the carrying amount
Consolidated pay-out	%	(Gross dividend per share * Nº shares at the close of the period) / Profit for the year of the parent	106.6% = (1.427 € * 1,058,752,117 shares) / 1,417 MM€	100.0% = (1.382 € * 1,058,752,117 shares) / 1,463 MM€	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (consolidated Group)
Consolidated ordinary pay-out	%	(Gross dividend per share * No. of shares at the end of the reporting period) / Net ordinary income of the Parent	100.0% = (1.427 € * 1,058,752,117 shares) / 1,511 MM€	100.8% = (1.382 € * 1,058,752,117 shares) / 1,452 MM€	Measure of the part of ordinary income obtained used to remunerate shareholders through the payment of dividends (consolidated Group)
Individual pay-out	%	(Gross dividend per share * No. shares at the end of the reporting period / Profit for the year of the ENDESA, S.A.	100.0% = (1.427 € * 1,058,752,117 shares) / 1,511 MM€	98.1% = (1.382 € * 1,058,752,117 shares) / 1,491 MM€	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (individual company)

MM€ = millions of Euros; € = Euros.
n = 31 December of the year being calculated.
n-1 = 31 December of the year before the year being calculated.

APPENDIX II

Effect of changes to accounting policies on the Consolidated Statement of Financial Position at 1 January 2018

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT 1 JANUARY 2018

Millions of Euros

	1 January 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	1 January 2018 (Adjusted) (1)
ASSETS				
NON-CURRENT ASSETS	**25,507**	**12**	**95**	**25,614**
Property, plant and equipment	21,727	-	-	21,727
Investment property	9	-	-	9
Intangible assets	1,196	-	95	1,291
Goodwill	459	-	-	459
Investments accounted for using the equity method	205	-	-	205
Non-current financial assets	769	(10)	-	759
Deferred tax assets	1,142	22	-	1,164
CURRENT ASSETS	**5,530**	**(43)**	**-**	**5,487**
Inventories	1,267	-	-	1,267
Trade and other receivables	3,100	(33)	-	3,067
Trade receivables	2,877	(33)	-	2,844
Current income tax assets	223	-	-	223
Current financial assets	764	(10)	-	754
Cash and cash equivalents	399	-	-	399
Non-current assets held for sale and discontinued operations	-	-	-	-
TOTAL ASSETS	**31,037**	**(31)**	**95**	**31,101**
EQUITY AND LIABILITIES				
EQUITY	**9,233**	**(40)**	**71**	**9,264**
Of the Parent	9,096	(40)	71	9,127
Share capital	1,271	-	-	1,271
Share premium and reserves	7,155	(40)	71	7,186
Profit for the period of the Parent	1,463	-	-	1,463
Interim dividend	(741)	-	-	(741)
Valuation adjustments	(52)	-	-	(52)
Of non-controlling interests	137	-	-	137
NON-CURRENT LIABILITIES	**14,269**	**9**	**24**	**14,302**
Deferred income	4,730	-	-	4,730
Non-current provisions	3,382	-	-	3,382
Provisions for pensions and similar obligations	951	-	-	951
Other non-current provisions	2,431	-	-	2,431
Non-current interest-bearing loans and borrowings	4,414	-	-	4,414
Other non-current liabilities	646	-	-	646
Deferred tax liabilities	1,097	9	24	1,130
CURRENT LIABILITIES	**7,535**	**-**	**-**	**7,535**
Current interest-bearing loans and borrowings	978	-	-	978
Current provisions	425	-	-	425
Provisions for pensions and similar obligations	-	-	-	-
Other current provisions	425	-	-	425
Trade payables and other current liabilities	6,132	-	-	6,132
Suppliers and other payables	5,962	-	-	5,962
Current income tax liabilities	170	-	-	170
Liabilities associated with non-current assets classified as held for sale and discontinued operations	-	-	-	-
TOTAL EQUITY AND LIABILITIES	**31,037**	**(31)**	**95**	**31,101**

(1) Adjusted at 1 January 2018 as explained in Section 2.2. Changes in accounting policies in this Consolidated Management Report.

APPENDIX III

Impact of changes in the accounting policies on the Consolidated Financial Statements for year ended on 31 December 2018

Millions of Euros

Consolidated Statement of Financial Position	31 December 2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	31 December 2018 Unaffected by the Application of IFRS 9 and IFRS 15
Non-current assets	**26,001**	**(19)**	**(111)**	**25,871**
Current assets	**5,655**	**36**	**-**	**5,691**
TOTAL ASSETS	**31,656**	**17**	**(111)**	**31,562**
Equity	**9,181**	**33**	**(83)**	**9,131**
Of the Parent	9,037	33	(83)	8,987
Of non-controlling interests	144	-	-	144
Non-current liabilities	**14,781**	**(16)**	**(28)**	**14,737**
Current liabilities	**7,694**	**-**	**-**	**7,694**
TOTAL EQUITY AND LIABILITIES	**31,656**	**17**	**(101)**	**31,562**

Millions of Euros

Consolidated Income Statement	2018	IFRS 9 Financial Instruments	IFRS 15 Revenue from Contracts with Customers	2018 Unaffected by the application of IFRS 9 and IFRS 15
INCOME	**20,195**	**-**	**-**	**20,195**
PROCUREMENTS AND SERVICES	**(14,567)**	**-**	**(70)**	**(14,637)**
Other variable procurements and services	(2,051)	-	(70)	(2,121)
CONTRIBUTION MARGIN	**5,628**	**-**	**(70)**	**5,558**
EBITDA	**3,627**	**-**	**(70)**	**3,557**
Depreciation and amortisation, and impairment losses	(1,708)	(6)	54	(1,654)
PROFIT FROM OPERATIONS	**1,919**	**(6)**	**(16)**	**1,897**
NET FINANCIAL PROFIT/(LOSS)	**(139)**	**(3)**	**-**	**(142)**
PROFIT/(LOSS) BEFORE TAX	**1,818**	**(9)**	**(16)**	**1,173**
Income tax expense	(392)	2	4	(386)
PROFIT FOR THE PERIOD	**1,426**	**(7)**	**(12)**	**1,407**
Parent	1,417	(7)	(12)	1,398
Non-controlling interests	9	-	-	9