



2016-2019 Strategic Plan Update

23 November, 2015

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**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM

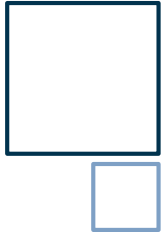




Agenda



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| 4. Financial guidance and dividend policy | José Bogas |
| 5. Proven track record of meeting and exceeding targets | José Bogas |
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1. Introduction



Highlights



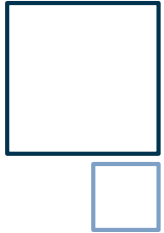
Industry trend geared towards a zero CO2 emission economy

Regulatory stability expected as structural tariff surplus from 2014 onwards

Challenging new commodities outlook more than compensated by cost efficiencies and other management actions

2015-17 Strategic Plan Update: strong and stable cash flow generation

Very attractive dividend policy: 100% pay-out in 2017-19



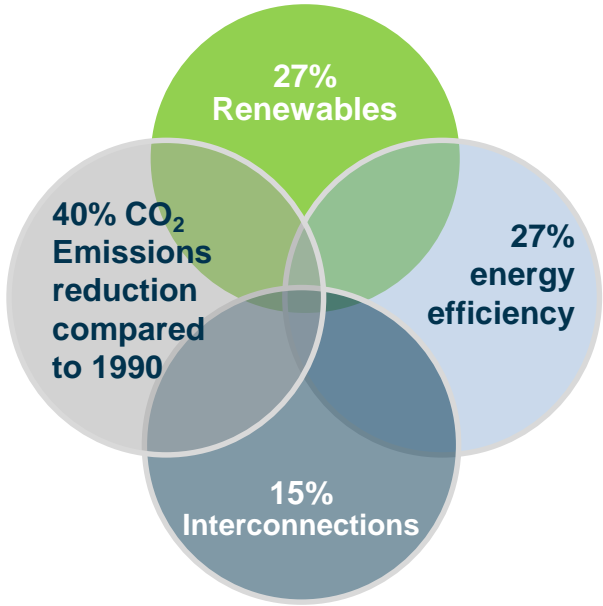
2. Energy outlook



Energy policy

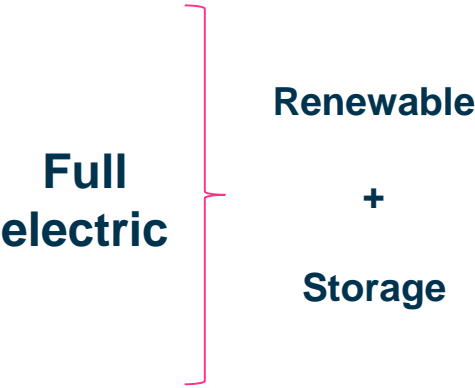
Climate change objectives

EU 2030 targets



Road to 2050: 80% reduction in CO₂ vs. 1990 levels

To reach objectives ...



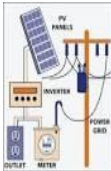
... leveraging on



Electric vehicle



HVAC⁽¹⁾



Renewable (distributed and centralized)

**Efficiency x3
(electric vs fossil)
+
100% renewable
=
“Zero” CO₂ and NO_x emission**

Long term, full electrification of demand

(1) HVAC: Heating, ventilation and air conditioning



Key issues in the medium to long term energy outlook

Electricity tariffs

- Global energy policy costs should be removed from electricity bill

RES

- Provide long term visibility to RES development while capturing technological improvements and cost reductions
- Growth of distributed generation and self-consumption in a rational economic context

Nuclear

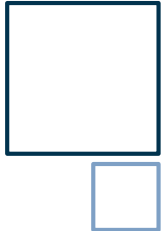
- Nuclear energy is competitive, safe and CO2-free. Stabilizes and reduces wholesale prices
- Based on technical and safety criteria, plan life could be extended up to 60 years, like in USA

Coal

- The most competitive units will be operational at least until the end of next decade
- The remaining coal plants should be gradually closed

Interconnections

- Promote interconnections following cost-benefit analysis
- Promote tax harmonization in the EU



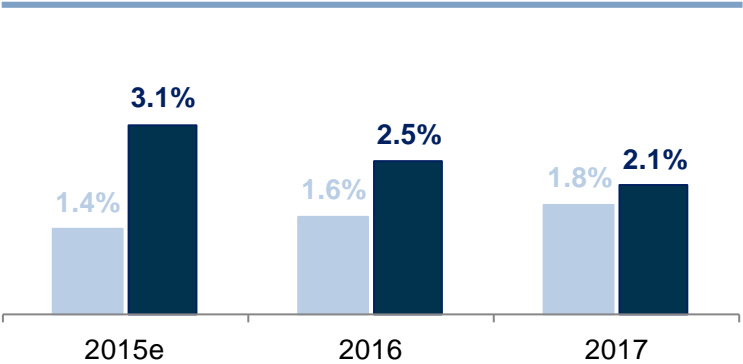
3. Market trends and strategy



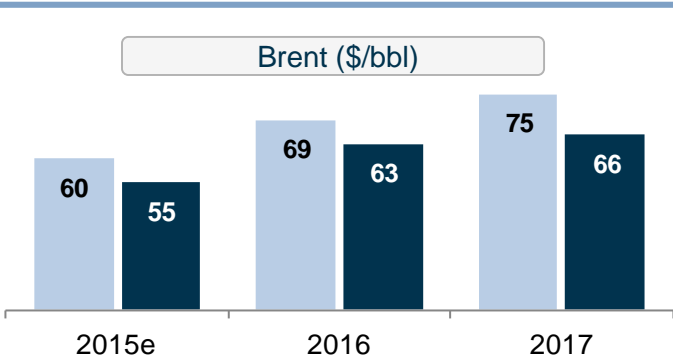
Macro assumptions

Old assumptions
New assumptions

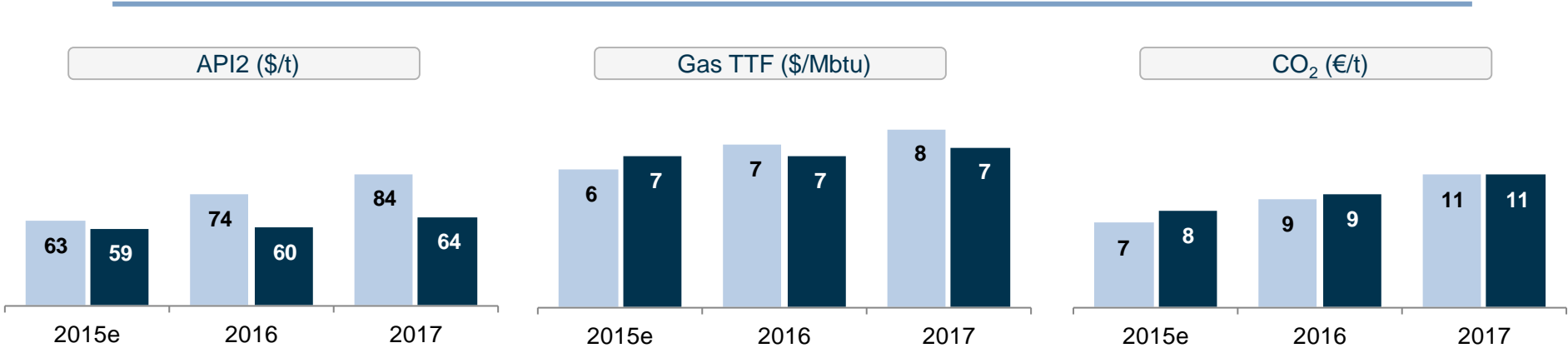
Spanish GDP evolution



Commodities (I)



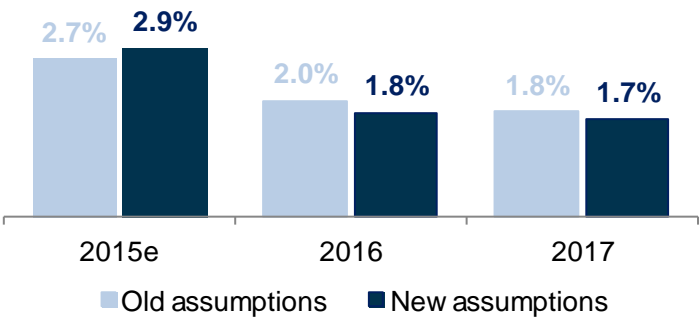
Commodities (II)



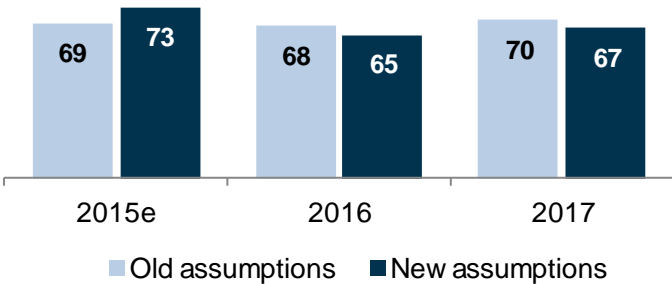


Electricity market assumptions in Spain

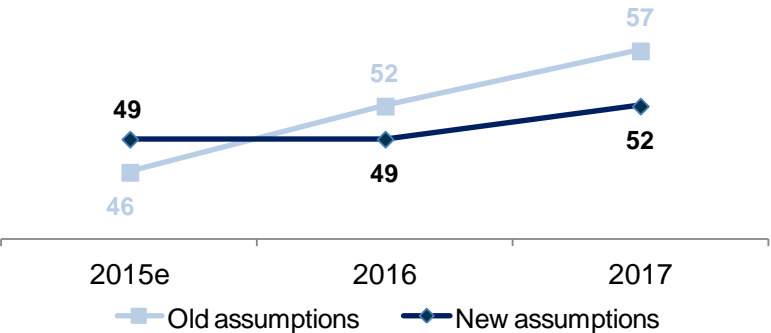
Mainland electricity demand (%)



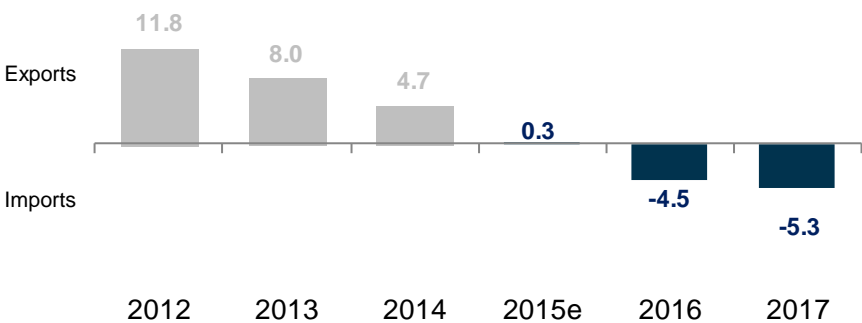
Thermal Gap (TWh)



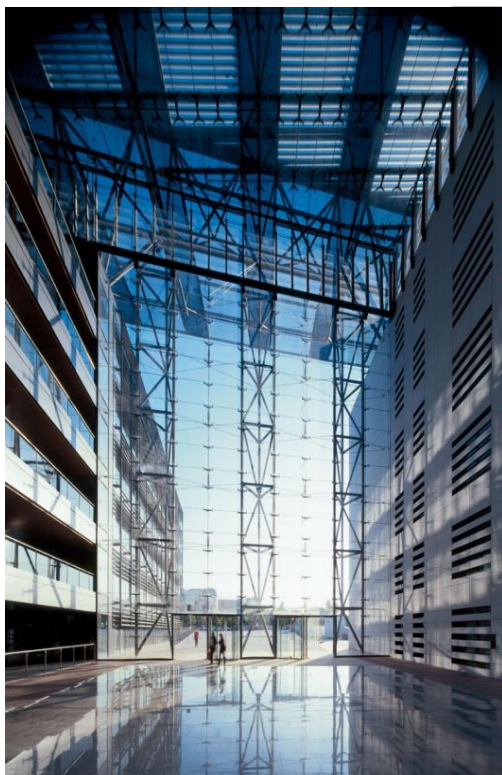
Wholesale electricity prices (€/MWh)



Interconnections (TWh)



Strategy



1

Realize full potential of regulation

2

Growth in regulated and liberalized business

3

Focus on efficiency

4

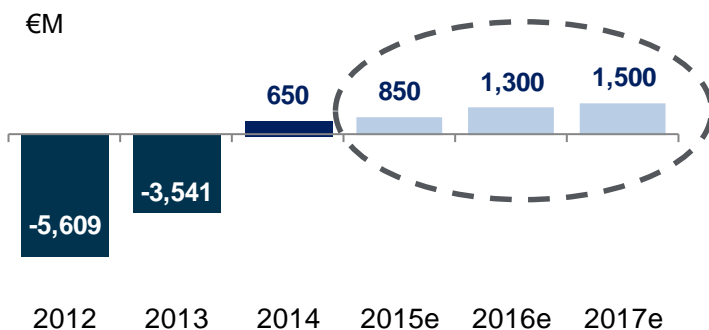
2015-2019 Capex program focused on profitable investments



Stable regulatory framework

Current and potential uses of expected tariff surplus

Tariff deficit and expected tariff surplus evolution



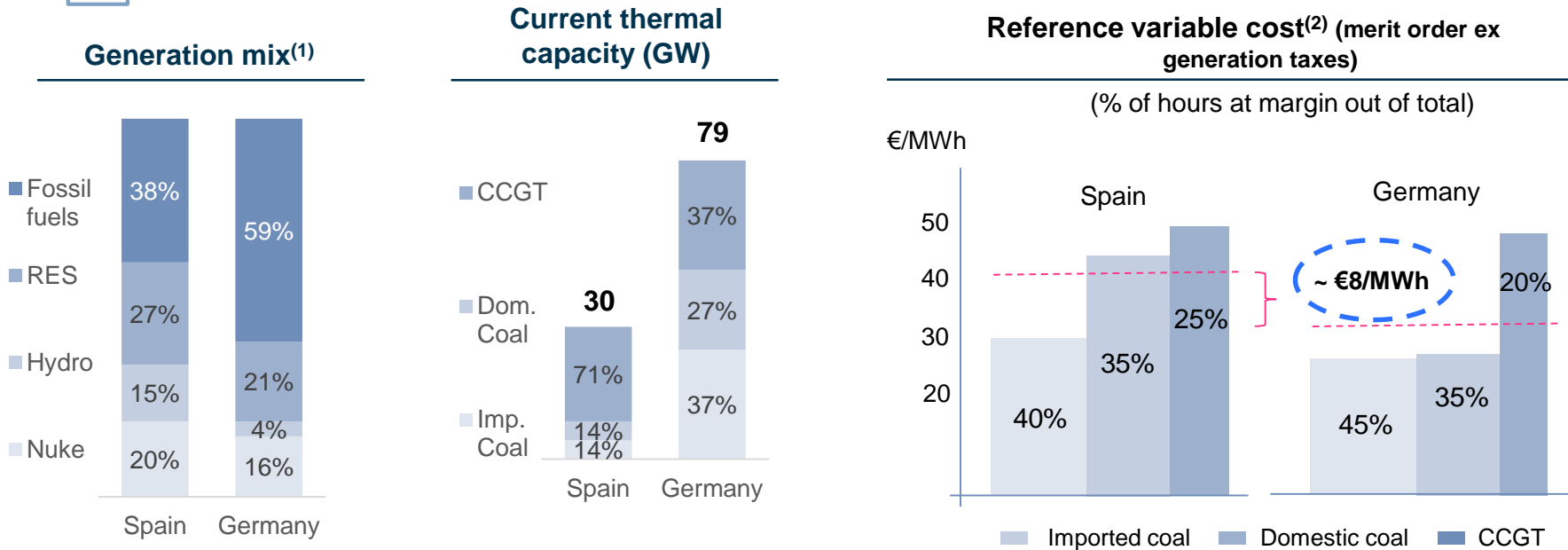
- Not only tariff sufficiency has been achieved...
- and will generate a surplus from 2014 onwards
- While historic tariff deficit remains, potential surplus should be used to repay debt leaving access fees unchanged

- **Sector proposal for the use of tariff surpluses:**
 - Reduction or elimination of 7% generic tax on generation from 2016 onwards would imply....
 - ✓a reduction in the electricity bill
 - ✓ Improved competitiveness of the economy

Possibility to reduce energy bill and adjust some market distortions



Spain vs. Germany: gap electricity prices drivers



- Domestic coal commodity price: €8/MWh
- Law 15/2012 Taxes: €8/MWh - €10/MWh
- Volatility of hydro and RES (42% weight in Gx mix in Spain vs. 25% in Germany)



YTD wholesale prices difference ≈ €17/MWh⁽³⁾

Competitive thermal mix is key to keep power prices low

(1) Year 2013
(2) Includes hydro (opportunity cost)
(3) YTD Spanish power price ≈ €49/MWh and ≈ €32/MWh for Germany



Stable regulatory framework

Energy reform almost completed with some issues close to conclusion

- ☒ Availability date
- ☐ Expected date

Proximity in time

Distribution

- CNMC non-binding report on standard values for investment and O&M
- Ministerial Order

- ☒ October 2015
- ☐ Year End 2015

Domestic coal power plants (IED related investments)

- Endesa coal power plants within the Transitional National Plan
- CNMC report on 3rd Draft Ministerial Order
- New Ministerial Order
- Submission to European Commission
- Final decision to undertake IED investment

- ☒ September 2015
- ☒ October 2015
- ☒ Work in progress
- ☐ Pending
- ☐ Mid 2016

Strategy



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2015-2019 Capex program focused on profitable investments



Growth in regulated business

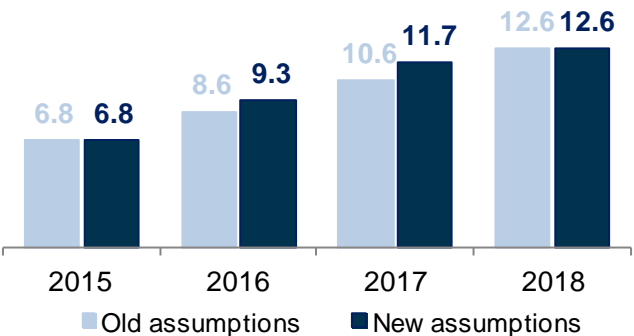
Distribution. Main initiatives in place

Description

Main benefits

Acceleration of smart meters installation

Smartmeters (million)



Total Capex: €0.6 bn

- Meter rental fees in addition to RAB regulated revenues
- Overall cost improvement of €50 M/year
- Reduction of non-technical losses

Quality Plan

- Increase the level of automation and telecontrol of the MV/LV network
- Total capex (2016-19): €0.1 bn

- RAB remunerated
- Optimize quality reducing cash-cost
- Upgrade communications networks
- Improve quality of service: -10 minutes of TIEPI⁽¹⁾
- Savings in the operation of MV/LV grid

Control Room integration

- Total capex (2017-19): €0.1 bn

- Integrated system allowing management of the entire grid from any location
- Increased efficiency in operations, safety and security

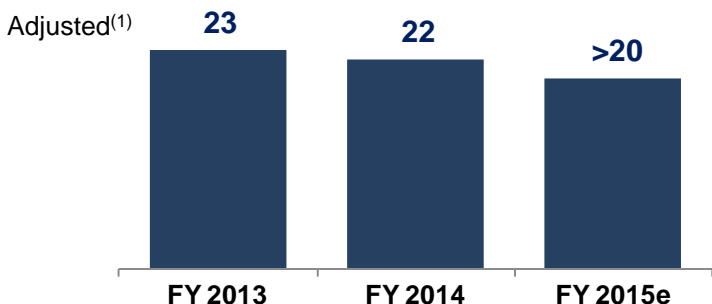
(1) Installed capacity equivalent interruption time



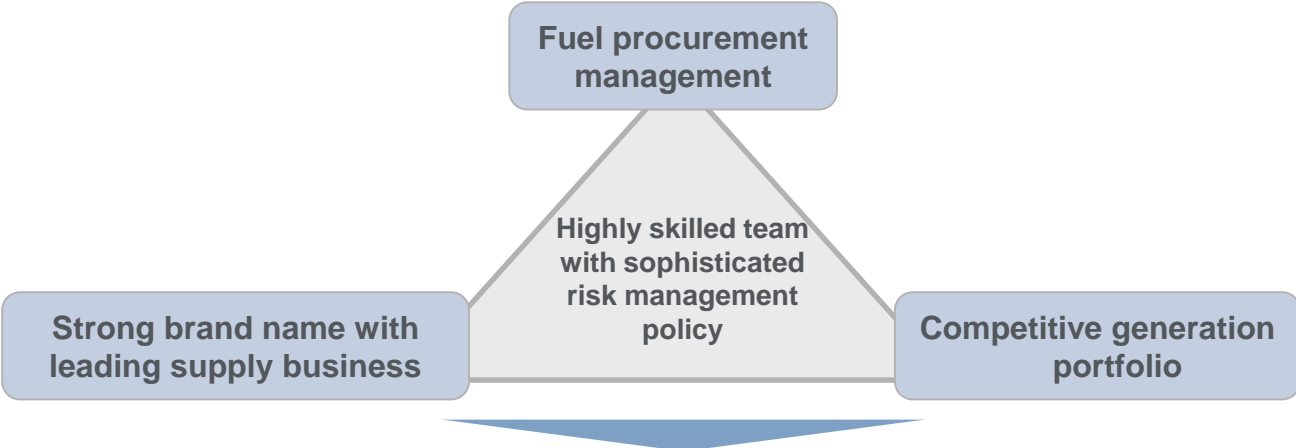
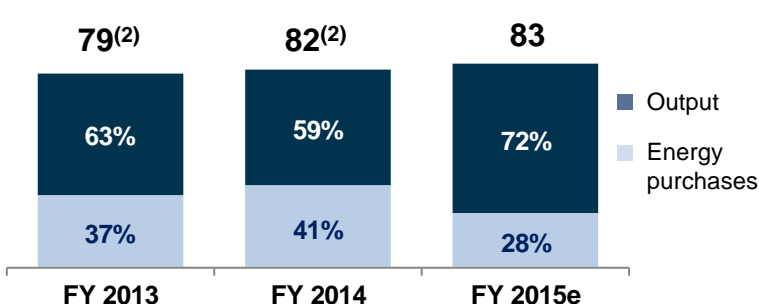
Growth in liberalized business

Leveraging our integrated position

Endesa's unitary margin (€/MWh)



Endesa's energy mix (TWh)



Sustainable electricity margin in any market scenario

(1) Considers reported figures adjusted by social bonus and RD on national coal effects in 2013 y 2014. Reported figures are €23.4/MWh in 2013 and €19/MWh in 2014

(2) Excluding domestic coal output under RD on national coal

(3) Arithmetic average Pool Price

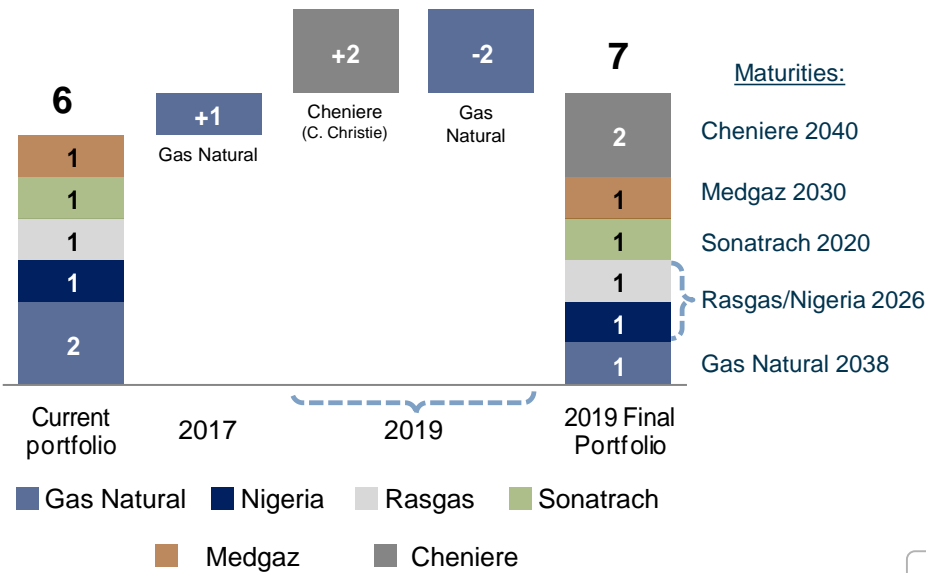


Growth in liberalized business

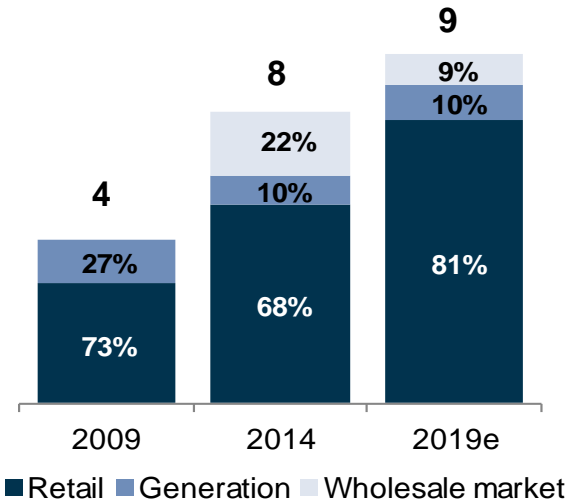
Sources and uses of gas



Gas procurement portfolio evolution (bcm)



Historic and future gas uses (bcm)



- Wholesale gas margin normalization
- Stabilization of Spanish retail gas margin ~ €2.5/MWh

Good balance of sources and uses of gas



Growth in liberalized business

Supply: consolidating our leading position in electricity and further growth in gas



	General targets	2019 targets	Plans and actions
Spain	<ul style="list-style-type: none">Consolidating electricity leadership while growing in gasStrong growth in VAS	<ul style="list-style-type: none">✓ 11.2 M electricity customers✓ +30% gas customers✓ 2014 VAS margin x2	<ul style="list-style-type: none">Selective acquisitions of gas and electricity customer portfolios (i.e., GALP transaction)Launch of innovative products with a wide range of commercial offers (i.e., Tempo, Nexo)
Portugal	<ul style="list-style-type: none">Growth in electricity and gasDeployment of VAS	<ul style="list-style-type: none">✓ To double electricity market share (~9%)✓ 6% gas market share	<ul style="list-style-type: none">Full business process outsourcingNew B2C gas customers (first 2,000 clients)
France	<ul style="list-style-type: none">Gas expansion	<ul style="list-style-type: none">✓ To more than double gas sales	<ul style="list-style-type: none">+25% in 2015 vs. 2014

Acceleration of our customer target increase trough the acquisition of GALP’s customers

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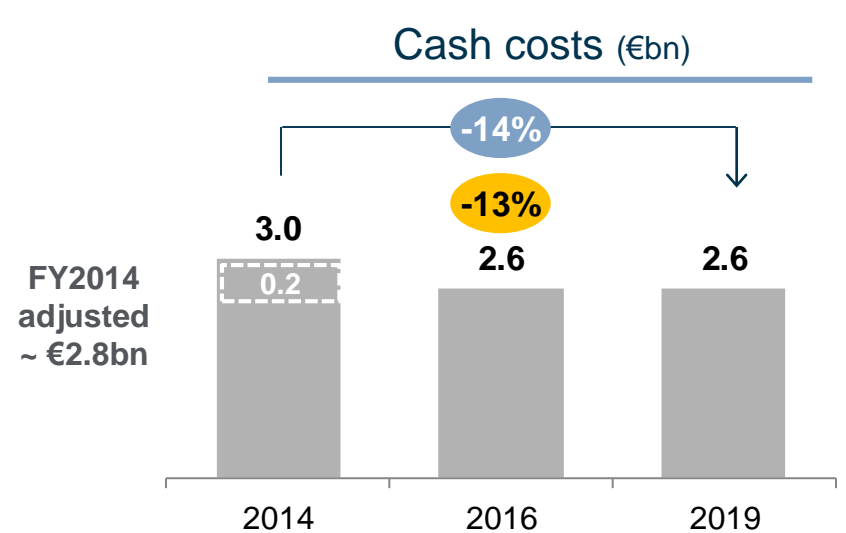
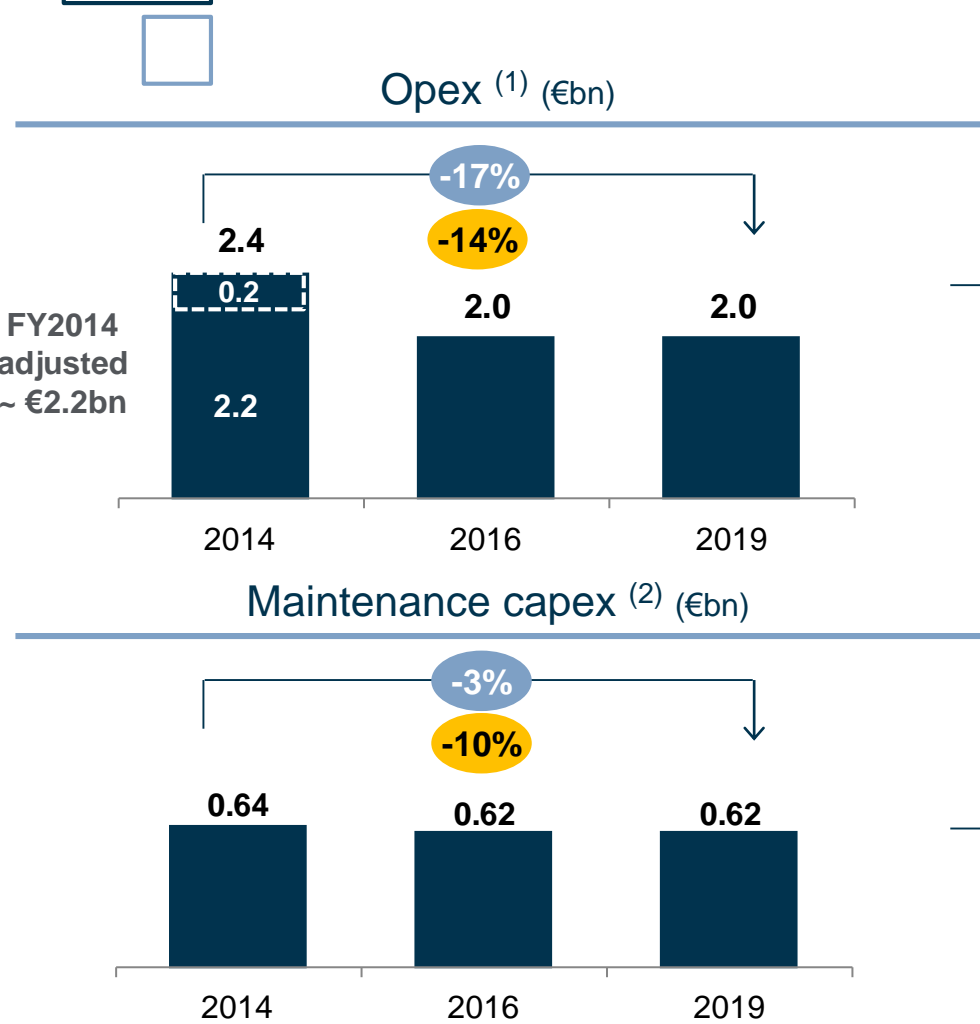
Focus on efficiency

4

2015-2019 Capex program focused on profitable investments



Increased focus and commitment to efficiency....



New target
 Previous target

Further cash-cost reduction

(1) Total fixed costs in nominal terms (net of capitalizations)
(2) Net capex



... in every business line



Distribution

- New organization in Distribution, with simplified processes and divisions.
- Full deployment of smart metering.
- Investment in efficiency oriented innovative technologies.



Generation

- Best practice sharing in every technology.
- Continuous improvement programme in Hydro.
- O&M contract renegotiation and fuel mix optimization in Coal.
- Virtual mothballing in CCGTs
- Long term operational plan in Nuclear.



Supply

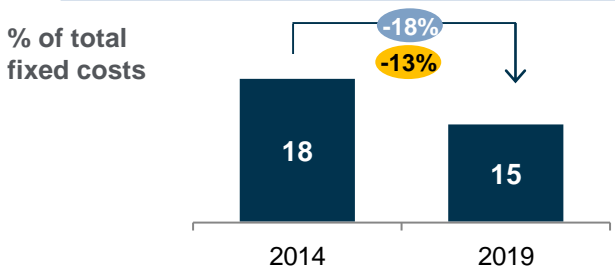
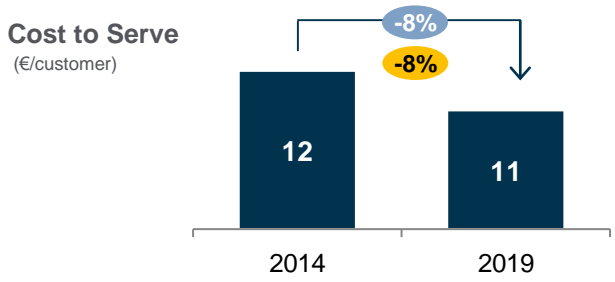
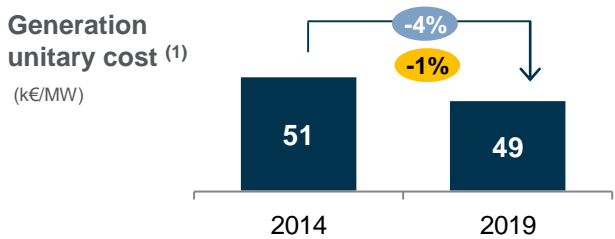
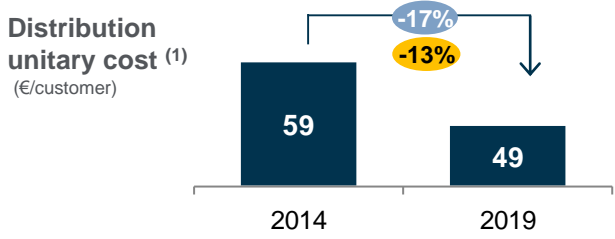
- Focus on digitalization of all processes and products.
- Optimization of call centers, customer service offices and back office processes



Corporate

- Zero base budget revision and reorganization

New target
Previous target



(1) Includes Corporate fees

Strategy



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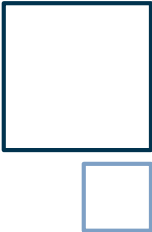
Growth in regulated and liberalized business

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Focus on efficiency

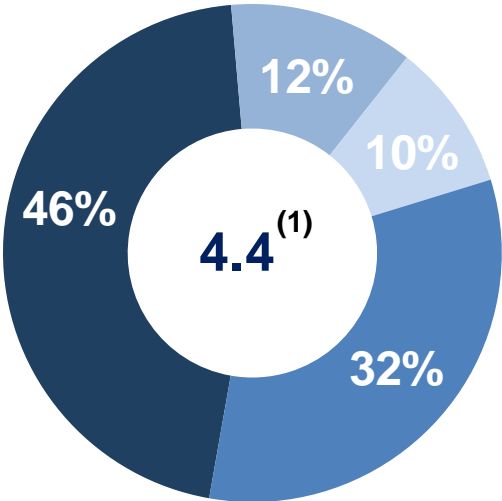
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2015-2019 Capex program focused on profitable investments



2015-2019 Capex program focused on profitable investments

Net CAPEX by business (€bn)



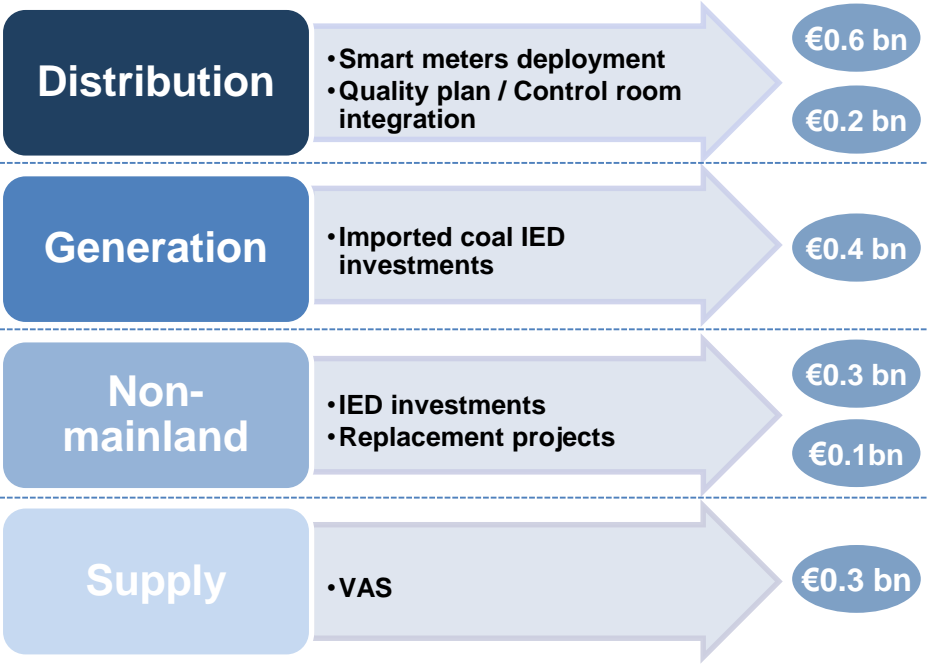
Distribution

Generation

Non-mainland

Supply

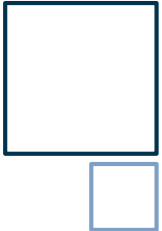
Main projects



Growth investments return:
Spread IRR over WACC ≥ 200bp

Capex program adjusted to market context

(1) Gross capex amounts to 5.6 bn€

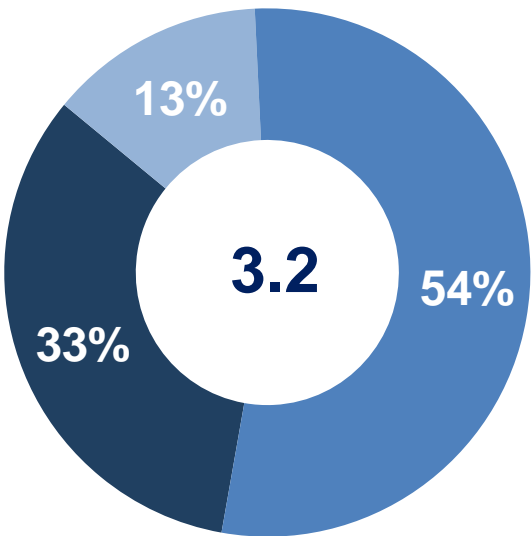


4. Financial guidance and dividend policy

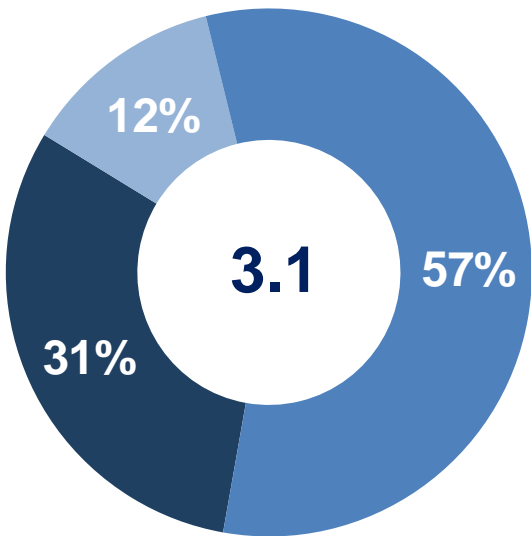


2016-2017 EBITDA evolution

2016 (€bn)



2017 (€bn)



Previous target

€3.1 bn

€3.1 bn

CAGR 2014-19: 2.9%

■ Distribution ■ Generation&Supply ■ Non-mainland

2017 EBITDA ~ 70% regulated



2015-2017 key financial metrics



	2015e	2016	2017
EBITDA	$\geq \text{€}3.0 \text{ bn}$	$\text{€}3.2 \text{ bn}$	$\text{€}3.1 \text{ bn}$
Net Income	$\geq \text{€}1.0 \text{ bn}$	$\text{€}1.3 \text{ bn}$	$\text{€}1.2 \text{ bn}$
Cumulative Free Cash Flow	$\sim \text{€}3.8 \text{ bn}$		

Creating value for shareholders



2015-2019 dividend policy

2015-2016

2017-2019

Amount

- **Maximum amount per share between**
 - **100% Pay-out**
 - **Minimum annual DPS growth target of 5% on the ordinary dividend per share paid against previous year's profit**

- **100% Pay-out of ordinary net attributable income**

Timing

- **Bi-annual dividend payment**
 - Interim dividend payable in January and final dividend payable in July

Consideration

- **100% cash pay dividend**

One of the most attractive dividend policies in the utility sector



5. Proven track record of meeting and exceeding targets

Proven track record of meeting and exceeding targets

Main regulatory topics

October 2014 Investor Day

November 2015

- *Tariff sufficiency from 2014*
- *Law 15/2012 taxes recognition in non mainland*



▪ RD 738/2015

Financial guidance

- EBITDA 2014: €2.9 bn
- EBITDA 2015: €2.9 bn
- EBITDA 2016: €3.1 bn
- Net Income 2015: €1.0 bn
- Net Income 2016: €1.1 bn



▪ EBITDA 2014: €3.1 bn



▪ EBITDA 2015e: ≥ €3.0 bn



▪ EBITDA 2016: €3.2 bn

New

▪ EBITDA 2017: €3.1 bn



▪ Net Income 2015e: ≥ €1.0 bn



▪ Net Income 2016: €1.3 bn

New

▪ Net Income 2017: €1.2 bn

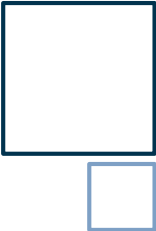
Dividend policy time frame

- 2014-2016

New

▪ 100% pay-out⁽¹⁾ 2017-2019

(1) 100% Pay-out of ordinary net attributable income



6. Closing remarks



Closing remarks



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Inclusion in DJSI for the 15th year in a row

(1) 100% Pay-out of ordinary net attributable income



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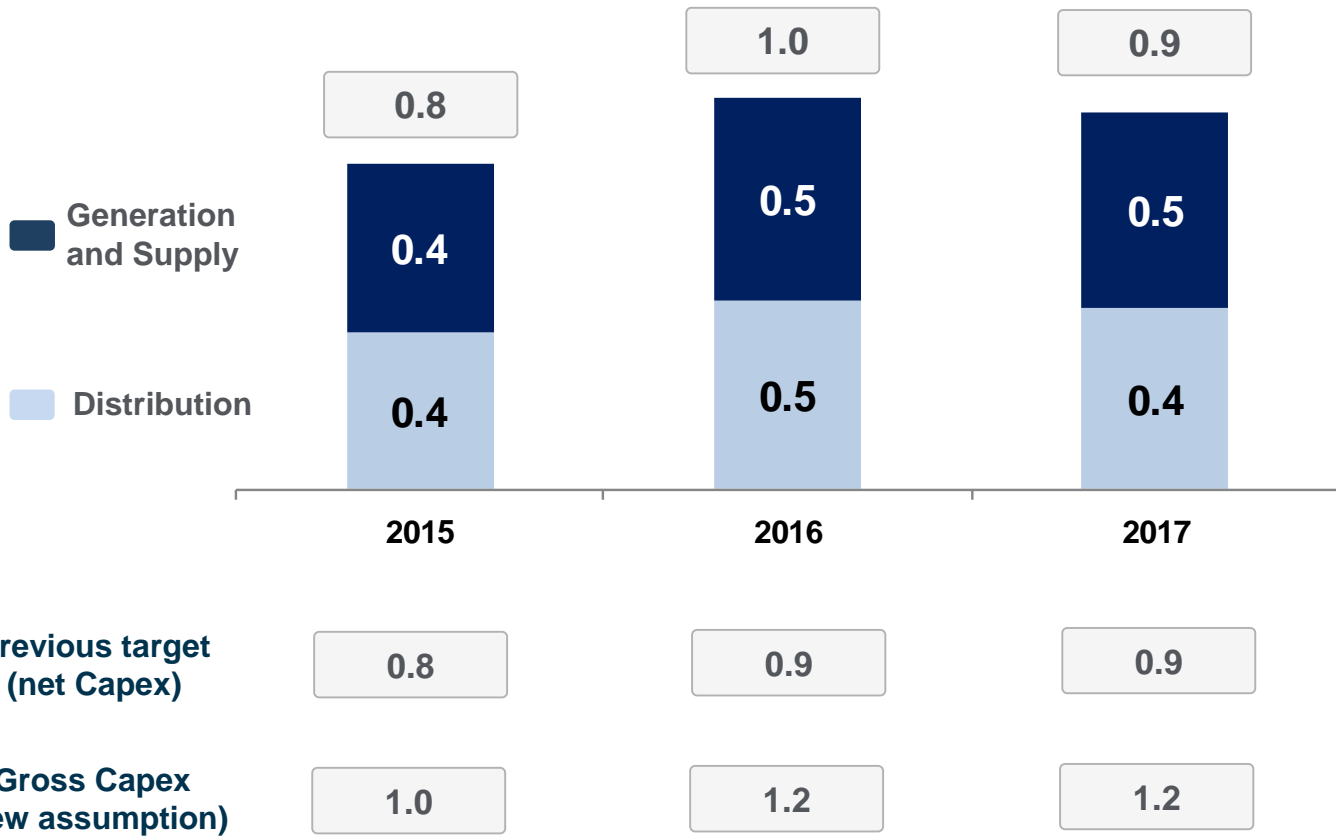




Annexes



2015-2017 Net Capex by business line (€bn)



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