# ENDESA, S.A.

# and Subsidiaries

# Consolidated Management Report for the three months ended 31 March 2016

**Madrid, 9 May 2016**

# ENDESA, S.A. AND SUBSIDIARIES

# CONSOLIDATED MANAGEMENT REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2016

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# ENDESA, S.A. AND SUBSIDIARIES

# CONSOLIDATED MANAGEMENT REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2016

## 1. Business Trends and Results in the first quarter of 2016

### 1.1. Consolidated results

**ENDESA reported net income of Euros 342 million (-21.4%) in the first quarter of 2016.**

ENDESA reported net income of Euros 342 million in the first quarter of 2016, an decrease of 21.4% from Euros 435 million reported in 1Q15.

Net income for the January-March 2015 period reflected Euros 125 million in profit deriving from the recognition of the value of European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) in accordance with the process established under EU Regulation 389/2013, articles 58-61, the sale of which was completed in December 2015.

Excluding this impact, ENDESA's net income in 1Q16 increased by 10.3% year-on-year.

The table below shows the breakdown of net income in ENDESA's businesses and its year-on-year change:

Million Euros

| | Net income | | | |
|---|---|---|---|---|
| | January-March 2016 | January-March 2015 | % chg | % contribution to total |
| Generation and supply | 130 | 252 | (48.4) | 38.0 |
| Distribution | 217 | 173 | 25.4 | 63.5 |
| Structure and Others [1] | (5) | 10 | (150.0) | (1.5) |
| **TOTAL** | **342** | **435** | **(21.4)** | **100.0** |

(1) Structure, Services and Adjustments.

### 1.2. Analysis of results

ENDESA's contribution margin in the January-March 2016 period amounted to Euros 1,310 million, Euros 150 million less than in the same period of last year (-10.3%), while EBITDA amounted to Euros 801 million (-15.9%). EBIT in 1Q16 decreased by Euros 160 million year-on-year to Euros 468 million.

The table below shows the breakdown of EBITDA and EBIT in ENDESA's businesses and their year-on-year change:

Million Euros

| | EBITDA | | | | EBIT | | | |
|---|---|---|---|---|---|---|---|---|
| | January-March 2016 | January-March 2015 | % chg | % contribution to total | January-March 2016 | January-March 2015 | % chg | % contribution to total |
| Generation and supply | 360 | 539 | (33.2) | 44.9 | 190 | 375 | (49.3) | 40.6 |
| Distribution | 479 | 425 | 12.7 | 59.8 | 323 | 271 | 19.2 | 69.0 |
| Structure and Others [1] | (38) | (12) | 216.7 | (4.7) | (45) | (18) | 150.0 | (9.6) |
| **TOTAL** | **801** | **952** | **(15.9)** | **100.0** | **468** | **628** | **(25.5)** | **100.0** |

(1) Structure, Services and Adjustments.

When looking at EBITDA for 1Q16, it must be taken into account that income of Euros 173 million was recognised in the January-March 2015 period deriving from the recognition of the value of European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) in accordance with the process established under EU Regulation 389/2013, articles 58-61.

Excluding this impact, EBITDA increased by Euros 22 million (+2.8%), due mainly to:

- lower fuel costs and the decrease of electricity prices in the wholesale market, the arithmetic average price of which was Euros 30.67/MWh in 1Q16 (-33.1%), which led to lower average electricity costs, thereby offsetting the decrease in the average sale price, and the tax on electricity generation.

- Control over fixed costs (personnel expenses and other fixed operating expenses), which were unchanged in the period.

- The deregulated gas business was affected by greater competitive pressure, mainly in the wholesale market.

EBIT in January-March 2016 fell 25.5% year-on-year to Euros 468 million, mainly as a result of the 15.9% decrease in EBITDA. Excluding the swap transaction indicated above, EBIT in 1Q16 increased by Euros 13 million (+2.9%).

**Revenue: Euros 4,878 million (-10.5%).**

Revenue totalled Euro 4,878 million in 1Q16, compared to Euro 5,451 million in in the first quarter of 2015. Of this amount, revenue from sales accounted for Euros 4,636 million (-8.8%), while other operating income accounted for Euros 242 million (-33.7%).

The table below shows the breakdown of sales and other operating revenues of ENDESA's businesses and their year-on-year change:

Million Euros

| | Revenue | | | | Other operating income | | | |
|---|---|---|---|---|---|---|---|---|
| | January-March 2016 | January-March 2015 | % chg | % contribution to total | January-March 2016 | January-March 2015 | % chg | % contribution to total |
| Generation and supply | 4,109 | 4,553 | (9.8) | 88.6 | 177 | 306 | (42.2) | 73.1 |
| Distribution | 557 | 571 | (2.5) | 12.0 | 75 | 73 | 2.7 | 31.0 |
| Structure and Others (1) | (30) | (38) | (21.1) | (0.6) | (10) | (14) | (28.6) | (4.1) |
| **TOTAL** | **4,636** | **5,086** | **(8.8)** | **100.0** | **242** | **365** | **(33.7)** | **100.0** |

(1) Structure, Services and Adjustments.

## Sales

Sales in the first quarter of 2016 were as follows:

Million Euros

| | January-March 2016 | January-March 2015 | Difference | % chg |
|---|---|---|---|---|
| Electricity sales | 3,295 | 3,647 | (352) | (9.7) |
| Sales to the deregulated market | 2,062 | 2,084 | (22) | (1.1) |
| Supply to customers in deregulated markets outside Spain | 239 | 237 | 2 | 0.8 |
| Sales at regulated prices | 626 | 836 | (210) | (25.1) |
| Wholesale market sales | 154 | 222 | (68) | (30.6) |
| Compensation for Non-Mainland Territories | 210 | 264 | (54) | (20.5) |
| Other electricity sales | 4 | 4 | - | - |
| Gas sales | 685 | 776 | (91) | (11.7) |
| Regulated revenue from electricity distribution | 506 | 513 | (7) | (1.4) |
| Other sales and services rendered | 150 | 150 | - | - |
| **TOTAL** | **4,636** | **5,086** | **(450)** | **(8.8)** |

Mainland electricity demand decreased by 1.3% year-on-year in the first quarter of 2016 (-0.6% after adjusting for working days and temperature).

The January-March 2016 period was characterised by very low prices, mainly due to high wind and hydro output, as well as to increased trading of electricity between Spain and France through the electricity interconnection and to low commodity prices.

Against this backdrop, ENDESA's mainland ordinary regime output totalled 12,411 GMh in the first quarter, 17.8% lower than in the first quarter of 2015, with decreased output at combined cycle plants (-61.7%), coal-fired plants (-31.7%), nuclear plants (-9.0%) and hydroelectric plants (-1.0%). Nuclear and hydro energy accounted for 70.9% of ENDESA's mainland generation mix under the ordinary regime (62.7% in January-March 2015), compared with 72.4% for the rest of the sector (59.8% in January-March 2015).

ENDESA's output in Non-Mainland Territories ("TNP") was 2,952 GWh, an increase of 0.8% compared to the first quarter of 2015.

ENDESA obtained a market share of 33.2% in mainland generation under the ordinary regime, a 42.6% share in distribution and a 35.9% share in sales to customers in the deregulated market.

In the first quarter of 2016, gas demand was down by 4.3% year-on-year, and ENDESA obtained a market share of 18.2% in sales to customers in the deregulated market.

### Sales to customers in the deregulated market

ENDESA had 5,161,977 customers in the deregulated market at the end of March 2016, a 1.6% increase on number at 31 December 2015: 4,280,832 (+1.6%) in the Spanish mainland market, 706,415 (+2.0%) in the Non-Mainland Territories market and 174,730 (-1.5%) in European deregulated markets other than Spain.

ENDESA sold a total of 19,835 GWh to these customers in the first quarter of 2016, a year-on-year increase of 3.8%.

Sales in the Spanish deregulated market amounted to Euros 2,062 million, Euros 22 million less than the year-ago figure (-1.1%) as higher number of customers and increase in physical units sold did not offset the decrease in the average sales price to the end customers.

Revenue from sales to deregulated European markets other than Spain totalled Euros 239 million, in line with the first quarter of 2015 (+0.8%).

### Sales at regulated prices

During the first three months of 2016, ENDESA sold 3,842 GWh via its supplier of reference to customers to which regulated prices are applied, which is 14.4% lower than the same period of 2015.

These sales generated revenue of Euros 626 million from January to March 2016, 25.1% lower year-on-year, as a result of the fall in physical sales and the lower average sales price.

### Gas sales

ENDESA sold 23,281 GWh to customers in the natural gas market in the first quarter of 2016, which represents a 8.6% increase on the first quarter 2015 figure.

Revenue from gas sales in the market totalled Euros 685 million, down Euros 91 million (-11.7%) on the first quarter of 2015 due to the drop in average sales prices.

### Compensation for Non-Mainland Territories systems ("TNP")

Compensation for Non-mainland Territories generation stranded costs in the first quarter of 2016 amounted to Euros 210 million, a decrease of Euros 54 million (-20.5%) on the first quarter of 2015, due mainly to the reduction of fuel prices caused by trends in commodity prices.

### Electricity distribution

ENDESA distributed 28,602 GWh in the Spanish market in the first quarter of 2016, a year-on-year decrease of 1.3%.

Revenue from regulated distribution activities in the first quarter of 2016 totalled Euro 506 million, down Euros 7 million (-1.4%) on January-March 2015.

### Other operating revenues

Other operating revenues totalled Euros 242 million, down Euros 123 million year on year (-33.7%).

In the first quarter of 2015, “Other operating revenues” included the gain of Euros 173 million from the swap of 25 million tonnes of Emission Reduction Units (ERUs) / Certified Emission Reductions (CERs) for European Union Allowances (EUAs).

## Operating expenses

Operating expenses totalled Euros 4,433 million in the January-March 2016 period, 8.5% less than in 2015.

The breakdown of operating expenses in the first quarter of 2016 is as follows:

Million Euros

| | January-March 2016 | January-March 2015 | Difference | % chg |
|---|---|---|---|---|
| Procurement and services | 3,568 | 3,991 | (423) | (10.6) |
| Power purchased | 1,106 | 1,409 | (303) | (21.5) |
| Cost of fuel consumed | 337 | 508 | (171) | (33.7) |
| Transmission costs | 1,553 | 1,558 | (5) | (0.3) |
| Other variable procurements and services | 572 | 516 | 56 | 10.9 |
| Personnel expenses | 202 | 218 | (16) | (7.3) |
| Other fixed operating expenses | 330 | 314 | 16 | 5.1 |
| Depreciation and amortisation, and impairment losses | 333 | 324 | 9 | 2.8 |
| **TOTAL** | **4,433** | **4,847** | **(414)** | **(8.5)** |

The table below shows the breakdown of operating expenses in ENDESA's businesses and their year-on-year change:

Million Euros

| | Procurement and services | | | | Personnel expenses | | | | Other fixed operating expenses | | | | Depreciation and amortisation, and impairment losses | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January-March 2016 | January-March 2015 | % chg | % contribution to total | January-March 2016 | January-March 2015 | % chg | % contribution to total | January-March 2016 | January-March 2015 | % chg | % contribution to total | January-March 2016 | January-March 2015 | % chg | % contribution to total |
| Generation and supply | 3,556 | 3,980 | (10.7) | 99.7 | 108 | 99 | 9.1 | 53.4 | 262 | 242 | 8.3 | 79.4 | 170 | 164 | 3.7 | 51.1 |
| Distribution | 30 | 37 | (18.9) | 0.8 | 64 | 91 | (29.7) | 31.7 | 82 | 114 | (28.1) | 24.8 | 156 | 154 | 1.3 | 46.8 |
| Structure and Others (1) | (18) | (26) | (30.8) | (0.5) | 30 | 28 | 7.1 | 14.9 | (14) | (42) | (66.7) | (4.2) | 7 | 6 | 16.7 | 2.1 |
| **TOTAL** | **3,568** | **3,991** | **(10.6)** | **100.0** | **202** | **218** | **(7.3)** | **100.0** | **330** | **314** | **5.1** | **100.0** | **333** | **324** | **2.8** | **100.0** |

(1) Structure, Services and Adjustments.

## Procurements and services

Procurements and services (variable costs) totalled Euros 3,568 million in the first quarter of 2016, 10.6% less than in the same period of 2015.

Details of these costs are as follows:

- Power purchased in the first quarter of 2016 dropped by Euros 303 million (-21.5%) to Euros 1,106 million as a result of the decrease in the average purchase price of the electricity acquired in the market (the arithmetic average price stood at Euros 30.67/MWh, -33.1%) and in the average purchase price of gas acquired for retail sales.

- The cost of the fuel consumed in the first quarter of 2016 was Euros 337 million, down 33.7% (Euros 171 million) due to the decrease in fossil-fuel output in the period and the reduction in the average purchase price.

- “Other variable procurements and services” totalled Euros 572 million, up Euros 56 million year-on-year. This change was mainly due to the Euros 101 million (+97.1%) increase in expenses relating to energy derivatives, partially offset by a Euros 43 million (+39.8%) increase in revenue relating to this item recognised under “Other operating income” and the Euros 13 million drop in $CO_2$ emissions costs on the back of lower fossil-fuel output and the Euros 29 million decrease in the electricity generation tax owing to lower output in the period.

The breakdown of the contribution margin in ENDESA’s businesses and the year-on-year change was as follows:

Million Euros

| | Contribution margin | | | |
|---|---|---|---|---|
| | January-March 2016 | January-March 2015 | % chg | % contribution to total |
| Generation and supply | 730 | 879 | (17.0) | 55.7 |
| Distribution | 602 | 607 | (0.8) | 46.0 |
| Structure and Others (1) | (22) | (26) | (15.4) | (1.7) |
| **TOTAL** | **1,310** | **1,460** | **(10.3)** | **100.0** |

(1) Structure, Services and Adjustments.

### Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 532 million in the first quarter of 2016, with no changes with regard to the same period of 2015.

"Personnel expenses" were Euros 202 million in the period, down by Euros 16 million (-7.3%) year-on-year, due mainly to the 5.5% reduction in the workforce.

Other fixed operating expenses stood at Euros 330 million, up by Euros 16 million (+5.1%), mainly as a result of the Euros 15 million increase in repair and maintenance costs.

### Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 333 million in the first quarter of 2016, Euros 9 million (+2.8%) more than the same period of 2015.

### Net financial loss: Euros 51 million (-38.6%).

The net financial loss for the first half of 2016 was Euros 51 million, an decrease of Euros 32 million (-38.6%) year-on-year.

Net financial expenses totalled Euros 50 million in the first quarter of 2016, down Euros 27 million (-35.1%) year-on-year, while net exchange losses were Euros 1 million, compared to a Euros 6 million loss in the first quarter of 2015.

In the first quarter of 2016, income was recognised related to the adjustment of interests for the financing of the revenue shortfall from regulated activities in Spain amounting to Euros 12 million.

Stripping out this impact, net financial expenses would have declined by Euros 15 million (-19.5%), due to the reduction in the average net financial debt and in the average cost of debt.

## 2. Other Information

## 2.1. Risk management policy

The ENDESA Group followed the same general risk policy in the three months ended 31 March 2016 as that described in its annual consolidated financial statements for the year ended 31 December 2015. In this regard, the financial instruments and types of hedges are the same as those described in those consolidated financial statements. The risks to which ENDESA's operations are exposed are also the same as described in the Consolidated Management Report for the year ended 31 December 2015.

## 2.2. Consolidation scope

On 16 February 2016, the sale to CLT Holding AD of the indirect investment in Compostilla Re, S.A., through ENEL Insurance, N.V. was completed for a price of Euros 50 million. The net proceeds from the sale totalled Euros 9 million.

On 30 March 2016, ENDESA acquired from EDP - Gestão de Produção de Energia, S.A. 48,854 shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribução De Energia Eléctrica, S.A., in which ENDESA previously held a stake of 38.89%. As a result of the transaction, the consideration of which amounted to Euros 8 million, ENDESA has increased its investment in the share capital of Tejo Energia - Produção e Distribução De Energia Eléctrica, S.A to 43.75%

## 2.3. Dividends

Approval was given at ENDESA General Shareholders' Meeting of 26 April 2016 to pay shareholders a total dividend charged against 2015 profit of a gross Euros 1.026 per share (Euros 1,086 million).

Taking into consideration the interim dividend of Euros 0.4 gross per share (Euros 424 million) paid on 4 January 2016, the final dividend to be charged to 2015 profit amounts to Euros 0.626 gross per share (Euros 633 million) and will be paid on 1 July 2016.

## 2.4. Other Information

On 18 April 2016, an agreement was signed for termination of the contract for the development of the Girabolhos hydroelectric plant project in Portugal between the Portuguese state and Hidromondego - Hidroeléctrica do Mondego, Lda, a company that is 90% owned by ENDESA Generación, S.A.U. and 10% owned by ENDESA Generación Portugal, S.A. Under this agreement, the Portuguese state waives any claims for indemnity and ENDESA commits to ensuring the adaptation, in accordance with prevailing regulations, of the accesses already set up and covering the cost of certain studies, the amount of which is not significant. This shall release the guarantees ENDESA, S.A. had provided for the development of the Girabolhos hydroelectric plant project in Portugal, amounting to Euros 28 million.

There were no one-off events involving significant amounts during the first quarter of 2016 other than those referred to herein. Therefore, during the period ended 31 March 2016 no new significant contingent liabilities arose other than those described in the Consolidated Financial Statements for the year ended 31 December 2015.

# 3. Regulatory Framework

From a regulatory perspective, the main highlights during the period were as follows:

### Remuneration of the distribution activity

On 28 November 2015, the Official State Gazette published Royal Decree 1073/2015, of 27 November 2015, which modifies certain provisions in the Royal Decrees on the remuneration of electricity networks (Royal Decree 1047/2013, of 27 December 2013, for transmission, and Royal Decree 1048/2013, of 27 December 2013, for distribution). Among other aspects, the Royal Decree eliminates the yearly update of unitary values based on the CPI, in accordance with Law 2/2015 of 30 March 2015 on de-indexing the economy.

On 12 December, 2015, Ministerial Order IET/2660/2015, of 11 December 2015, was published, establishing the types of installations and unitary value to be used in calculating distribution remuneration. This Order sets the beginning of the first regulatory period as 1 January 2016. In addition, pursuant to the third additional provision of Order IET/2735/2015, of 17 December 2015, on access tariffs for 2016, the Spanish National Markets and Competition Commission (CNMC) is mandated to submit a proposal to the Ministry of Industry, Energy and Tourism to calculate distribution remuneration using the methodology envisaged in Royal Decree 1048/2013, of 27 December 2013.

On 31 March 2016, the Ministry of Industry, Energy and Tourism began processing a proposed Ministerial Order establishing the remuneration of electricity distribution companies for 2016. Until the approval of the final tariff, the remuneration for 2015 will be paid on account.

### 2016 electricity tariff

On 18 December 2015, the Official State Gazette published Order IET/2735/2015, of 17 December 2015, which set access tariffs for 2016. Pursuant to this Order, tariffs remained unchanged, except for high-voltage access tariff 6.1B (30<kV≤36). However, the unit price paid by customers to finance capacity payments were reduced by 21.5% from those existing on 31 December 2015.

### Natural gas tariff for 2016

Ministerial Order IET/2736/2015, of 17 December 2015, generally maintained the access tariffs with respect to 2015, having updated the Last Resort Tariffs with an average 3% reduction, resulting from lower raw material costs.

### Energy efficiency

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

Order IET/359/2016, of 17 March 2016, establishes ENDESA's contribution to the Energy Efficiency National Fund at Euros 29.7 million for 2016.

The contribution to the Energy Efficiency Fund arising from obligations in 2015, established by Ministerial Order IET/289/2015, of 20 February 2015, amounted to Euros 30.2 million.

## 4. Liquidity and Capital Resources

## 4.1. Financial Management

### Financial debt

The reconciliation of ENDESA's gross and net financial debt at 31 March 2016 and 31 December 2015 is as follows:

Million Euros

| | 31 March 2016 | 31 December 2015 | Difference | % chg |
|---|---|---|---|---|
| Non-current interest-bearing loans and borrowings | 4,706 | 4,680 | 26 | 0.6 |
| Current interest-bearing loans and borrowings | - | - | - | - |
| **Gross financial debt** | **4,706** | **4,680** | **26** | **0.6** |
| Cash and cash equivalents | (213) | (346) | 133 | (38.4) |
| Derivatives recognised as financial assets | (11) | (11) | - | - |
| **Net financial debt** | **4,482** | **4,323** | **159** | **3.7** |

ENDESA had net financial debt of Euros 4,482 million at 31 March 2016, an increase of Euros 159 million compared to 31 December 2015.

When assessing net financial debt, it must be borne in mind that on 4 January 2016 ENDESA paid its shareholders an interim dividend of Euros 0.4 per share (gross) against 2015 results, implying a payout of Euros 424 million.

The structure of ENDESA's gross financial debt at 31 March 2016 and 31 December 2015 was as follows:

Million Euros

| Currency | 31 March 2016 | 31 December 2015 | Difference | % chg |
|---|---|---|---|---|
| Euro | 4,706 | 4,680 | 26 | 0.6 |
| **TOTAL** | **4,706** | **4,680** | **26** | **0.6** |
| Fixed rate | 3,538 | 3,537 | 1 | - |
| Floating rate | 1,168 | 1,143 | 25 | 2.2 |
| **TOTAL** | **4,706** | **4,680** | **26** | **0.6** |
| Average life (years) | 7.7 | 8.0 | - | - |
| Average cost (%) | 2.6 | 2.7 | - | - |

At 31 March 2016, 75% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 25% accrued interest at floating rates. At this date, 100% of the Company's gross financial debt is denominated in euros.

### Main Financial Transactions

In the first quarter of 2016, ENDESA also maintained its programme of short-term debt issues on international markets, with an outstanding figure of Euros 107 million at 31 March 2016.

### Liquidity

ENDESA had liquidity of Euros 3,394 million at 31 March 2016 (Euros 3,533 million at 31 December 2015), sufficient to meet its total debt repayments over the next 26 months.

This amount includes Euros 213 million in cash and cash equivalents and Euros 3,181 million in undrawn and unconditionally available lines of credit, of which Euros 1,000 million correspond to credit lines with ENEL Finance International, N.V.

"Cash and cash equivalents" mature within three months from their acquisition date and earn interest at market rates for this type of deposit.

### Leverage ratio

Details of the consolidated leverage ratio at 31 March 2016 and 31 December 2015 are as follows:

Million Euros

| | Leverage ratio | |
|---|---|---|
| | 31 March 2016 | 31 December 2015 |
| **Net financial debt:** | **4,482** | **4,323** |
| Non-current interest-bearing loans and borrowings | 4,706 | 4,680 |
| Current interest-bearing loans and borrowings | - | - |
| Cash and cash equivalents | (213) | (346) |
| Derivatives recognised as financial assets | (11) | (11) |
| **Equity:** | **9,380** | **9,039** |
| Of the Parent | 9,377 | 9,036 |
| Of non-controlling interests | 3 | 3 |
| **Leverage ratio (%)** (*) | **47.8** | **47.8** |

(*) Net financial debt / Equity.

### Credit rating

At the date of this Consolidated Management Report, ENDESA's credit ratings were as follows:

| | 31 March 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Long-term | Short-term | Outlook | Long-term | Short-term | Outlook |
| Standard & Poor's | BBB | A-2 | Stable | BBB | A-2 | Positive |
| Moody's | Baa2 | P-2 | Stable | Baa2 | P-2 | Stable |
| Fitch Ratings | BBB+ | F2 | Stable | BBB+ | F2 | Stable |

## 4.2. Cash Flows

At 31 March 2016, cash and cash equivalents stood at Euros 213 million.

ENDESA's net cash flow at 31 March 2016 and 2015, broken down into operating, investing and financing activities, were as follows:

Million Euros

| | January - March 2016 | January - March 2015 |
|---|---|---|
| Net cash flows from operating activities | 665 | 907 |
| Net cash flows used in investing activities | (405) | (229) |
| Net cash flows used in financing activities | (393) | (527) |

In the first quarter of 2016, the cash flows generated by operating activities and the Euros 133 million reduction in cash and cash equivalents were sufficient to cover the investments needed to develop ENDESA's business and to cover the payment of dividends totalling Euros 424 million.

### Cash flow from operating activities

Net cash from operating activities in the first quarter of 2016 amounted to Euros 665 million, compared to Euros 907 million in the same period of 2015. The decrease was due to lower income in the period and the change in working capital caused mainly by the decrease of Euros 249 million in net receipts from compensation corresponding to Non-Mainland Territories Electricity Systems.

At 31 March 2016 and 31 December 2015, working capital comprised the following items:

Million Euros

| | 31 March 2016 | 31 December 2015 |
|---|---|---|
| **Current assets** (*) | **4,626** | **4,633** |
| Inventories | 1,281 | 1,262 |
| Trade and other receivables | 3,098 | 2,977 |
| Current financial assets | 247 | 353 |
| Non-current assets held for sale | - | 41 |
| | | |
| **Current liabilities** (**) | **5,414** | **5,871** |
| Current provisions | 682 | 638 |
| Trade payables and other current liabilities | 4,732 | 5,233 |
| Liabilities directly associated with non-current assets classified as held for sale | - | - |

(*)Excludes "Cash and cash equivalents" and derivatives recognised as financial assets corresponding to debt.
(**) Excludes "Financial debt" and derivatives recognised as financial liabilities corresponding to debt.

### Net cash used in investing activities

In the first quarter of 2016, net cash flows applied to investments amounted to Euros 405 million and reflect, among others, the acquisition of 4.86% of the share capital of Tejo Energia – Produção e Distribução de Energia Eléctrica, S.A. for Euros 8 million (see Section 2 Other Information, of this Consolidated Management Report).

Net cash flows used for the purchase of property, plant and equipment amounted to Euros 324 million in the first quarter of 2016 (Euros 243 million in 2015) (see Section 4.3 Investments, of this Consolidated Management Report).

### Net cash used in financing activities

In the first quarter of 2016, net cash flows used in financing activities totalled Euros 393 million (Euros 527 million in the first quarter of 2015) and include the payment of Euros 424 million for the dividend to be charged to 2015 profit (Euros 402 million in the first quarter of 2015) (See Section 4.1 Financial Management, of this Consolidated Management Report).

## 4.3. Investments

In the first quarter of 2016, ENDESA made gross investments of Euros 235 million. Of this amount, Euros 177 million were related to capex and investment in intangible assets, and the remaining Euros 58 million to financial investments, as follows:

Million Euros

| Gross investments | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|
| Generation and supply | 58 | 39 | 48.7 |
| Distribution | 105 | 105 | - |
| **TOTAL CAPEX** | **163** | **144** | **13.2** |
| Generation and supply | 6 | 4 | 50.0 |
| Distribution | 5 | 4 | 25.0 |
| Other | 3 | 3 | - |
| **TOTAL INTANGIBLE ASSETS** | **14** | **11** | **27.3** |
| **FINANCIAL INVESTMENTS** | **58** | **24** | **141.7** |
| **TOTAL INVESTMENTS** | **235** | **179** | **31.3** |

Gross investment in generation in the first quarter of 2016 largely related to plants that were already operating at 31 December 2015, including investments in the Litoral power plant for Euros 17 million, in order to adapt to European environmental legislation, which extended its useful life.

Gross investment in distribution related to network extensions and expenditure aimed at optimising the network in order for greater efficiency and quality of service. It also included investment for the widespread installation of remote management smart meters and their operating systems.

Gross investment in supply mainly related to the development of the activities related to added-value products and services.

Financial investments in the first quarter of 2016 mainly related to guarantees provided for operation in the market in the amount of Euros 40 million.

# Appendix I: Statistical information

## Key figures

GWh

| Electricity generation output | | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|---|
| **Mainland** | | **12,411** | **15,090** | **(17.8)** |
| Nuclear | | 6,461 | 7,103 | (9.0) |
| Coal | | 3,321 | 4,859 | (31.7) |
| Hydroelectric | | 2,333 | 2,356 | (1.0) |
| Combined cycle (CCGT) | | 296 | 772 | (61.7) |
| **Non-Mainland Territories** | | **2,952** | **2,929** | **0.8** |
| **TOTAL** | (1) | **15,363** | **18,019** | **(14.7)** |

(1) At power plant busbars.

MW

| Gross installed capacity | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|
| Hydroelectric | 4,765 | 4,765 | - |
| Conventional thermal | 8,130 | 8,278 | (1.8) |
| Nuclear | 3,443 | 3,443 | - |
| Combined cycle (CCGT) | 5,678 | 5,678 | - |
| **TOTAL** | **22,016** | **22,164** | **(0.7)** |

MW

| Net installed capacity | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|
| Hydroelectric | 4,721 | 4,721 | - |
| Conventional thermal | 7,585 | 7,723 | (1.8) |
| Nuclear | 3,318 | 3,318 | - |
| Combined cycle (CCGT) | 5,445 | 5,445 | - |
| **TOTAL** | **21,069** | **21,207** | (0.7) |

GWh

| Electricity sales | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|
| Reference supply | 3,842 | 4,488 | (14.4) |
| Deregulated market | 19,835 | 19,106 | 3.8 |
| **TOTAL** | **23,677** | **23,594** | **0.4** |

Thousands

| Number of customers (electricity) | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|
| Reference supply customer | 5,904 | 6,029 | (2.1) |
| Supply on the deregulated market | 5,162 | 5,083 | 1.6 |
| **TOTAL** | **11,066** | **11,112** | **(0.4)** |

Percentage (%)

| Trends in demand for electricity | (1) | January-March 2016 | January-March 2015 |
|---|---|---|---|
| Mainland | (2) | (1.3) | 2.3 |

(1) Source: Red Eléctrica de España, S.A. (REE).
(2) Adjusted for working days and temperature, trends in demand were -0.6% in 1Q16 and +1.5% in 1Q15

Percentage (%)

| Market share (electricity) | (1) | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|---|
| Generation under the ordinary regime | (2) | 33.2 | 38.8 | (14.4) |
| Distribution | | 42.6 | 43.5 | (2.1) |
| Supply | | 35.9 | 35.7 | 0.6 |

(1) Source: In-house.
(2) Mainland.

GWh

| Gas sales | | 31 March 2016 | 31 March 2015 | % chg |
|---|---|---|---|---|
| Deregulated market | | 14,859 | 13,996 | 6.2 |
| Regulated market | | 687 | 435 | 57.9 |
| International market | | 5,594 | 3,823 | 46.3 |
| Wholesale business | | 2,141 | 3,184 | (32.8) |
| **TOTAL** | (1) | **23,281** | **21,438** | **8.6** |

(1) Excluding own generation consumption

Thousands

| Number of customers (gas) | (1) | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|---|
| Regulated Market | | 281 | 288 | (2.4) |
| Deregulated market | | 1,206 | 1,173 | 2.8 |
| **TOTAL** | | **1,487** | **1,461** | **1.8** |

(1) Supply points

Percentage (%)

| Trends in demand for gas | (1) | 31 March 2016 | 31 March 2015 | % chg |
|---|---|---|---|---|
| Business in Spain and Portugal | | (4.3) | 6.5 | (166.2) |

(1) Source: Enagás, S.A.

Percentage (%)

| Market share (gas) | (1) | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|---|
| Deregulated market | | 18.2 | 16.5 | 10.3 |

(1) Source: in-house

GWh

| Energy distributed | (1) | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|---|
| Business in Spain and Portugal | | 28,602 | 28,970 | (1.3) |
| **TOTAL** | | **28,602** | **28,970** | **(1.3)** |

(1) At power plant busbars.

km

| Distribution and transmission networks | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|
| Business in Spain and Portugal | 316,650 | 317,675 | (0.3) |

Percentage (%)

| Energy losses | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|
| Business in Spain and Portugal | 12.8 | 12.1 | 5.8 |

## Personnel

Number of employees

| Workforce | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|
| Final headcount | 9,886 | 10,000 | (1.1) |
| Generation and supply | 5,065 | 5,108 | (0.8) |
| Distribution | 3,429 | 3,502 | (2.1) |
| Structure and Others (1) | 1,392 | 1,390 | 0.1 |
| Average headcount | 9,928 | 10,243 | (3.1) |
| Generation and supply | 5,092 | 5,183 | (1.8) |
| Distribution | 3,443 | 3,595 | (4.2) |
| Structure and Others (1) | 1,393 | 1,465 | (4.9) |

(1) Structure and services.

## Economic and Financial Data

Euros

| Valuation parameters (Euros) | | January-March 2016 | January-March 2015 | % chg |
|---|---|---|---|---|
| Net earnings per share | (1) | 0.32 | 0.42 | (21.4) |
| Cash flow per share | (2) | 0.63 | 0.86 | (26.7) |
| Book value per share | (3) | 8.86 | 8.53(4) | 3.8 |

(1) Income attributable to the Parent / No. of shares

(2) Net cash flows from operating activities / No. of shares.

(3) Equity attributable to the Parent / No. of shares

(4) At 31 December 2015

Million Euros

| | Leverage ratio | |
|---|---|---|
| | 31 March 2016 | 31 December 2015 |
| **Net financial debt:** | **4,482** | **4,323** |
| Non-current interest-bearing loans and borrowings | 4,706 | 4,680 |
| Current interest-bearing loans and borrowings | - | - |
| Cash and cash equivalents | (213) | (346) |
| Derivatives recognised as financial assets | (11) | (11) |
| **Equity:** | **9,380** | **9,039** |
| Of the Parent | 9,377 | 9,036 |
| Of non-controlling interests | 3 | 3 |
| **Leverage ratio (%)** (*) | **47.8** | **47.8** |

(*) Net financial debt / Equity.

## Ratings

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

(*) At the respective dates of issue of the Consolidated Management Report.

## Stock Market Information

Percentage (%)

| Share price trend | January-March 2016 | January-March 2015 |
|---|---|---|
| **ENDESA, S.A.** | **(8.9)** | **8.8** |
| Ibex 35® | (8.6) | 12.1 |
| Euro Stoxx 50® | (8.0) | 17.5 |
| Euro Stoxx Utilities® | (5.5) | 3.9 |

| Stock market data | | 31 March 2016 | 31 December 2015 | % chg |
|---|---|---|---|---|
| Market capitalisation | (Million Euros) | 17,861 | 19,613 | (8.9) |
| Number of shares outstanding | | 1,058,752,117 | 1,058,752,117 | - |
| Nominal share value | (Euros) | 1.2 | 1.2 | - |
| Cash | (Thousand Euros) | 3,022,655 | 16,500,861 | (81.7) |
| Madrid stock exchange | (Shares) | | | |
| Trading volume | | 175,801,585 | 919,800,874 | |
| Average daily trading volume | | 2,835,509 | 3,592,972 | |
| P.E.R. | (1) | 13.1 | 18.1 | (27.7) |

(1) Price to Earning Ratio (P.E.R.) = Closing price / Earnings per share

Euros

| ENDESA share price | January-March 2016 | January-December 2015 | % chg |
|---|---|---|---|
| Maximum | 18.35 | 20.59 | (10.9) |
| Minimum | 15.74 | 15.57 | 1.1 |
| Average in the period | 17.05 | 18.23 | (6.5) |
| Closing price | 16.87 | 18.52 | (8.9) |

## Disclaimer.

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

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

In these statements we avail ourselves of the protection provided by the Private Securities Litigation Reform Act of 1995 of the United States of America with respect to forward-looking statements.

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

Economic and industry conditions: significant adverse changes in the conditions of the industry, the general economy or our markets; the effect of the prevailing regulations or changes in them; tariff reductions; the impact of interest rate fluctuations; the impact of exchange rate fluctuations; natural disasters; the impact of more restrictive environmental regulations and the environmental risks inherent to our activity; potential liabilities relating to our nuclear facilities.

Transaction or commercial factors: any delays in or failure to obtain necessary regulatory, antitrust, internal and other approvals for our proposed acquisitions, or asset disposals, or any conditions imposed in connection with such approvals; our ability to integrate acquired businesses successfully; the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the process of integrating acquired businesses; the outcome of any negotiations with partners and governments. Delays in or impossibility of obtaining the permits concerned and rezoning orders in relation to real estate assets. Delays in or impossibility of obtaining regulatory authorisation, including that related to the environment, for the construction of new facilities, repowering or improvement of existing facilities or for their closure or dismantling; shortages of or changes in the price of equipment, material or labour; opposition of political or ethnic groups; adverse changes of a political or regulatory nature in the countries where we or our companies operate; adverse weather conditions, natural disasters, accidents or other unforeseen events, and the impossibility of obtaining financing at what we consider to be satisfactory interest rates.

Regulatory, environmental, governmental and political factors: political conditions in Spain and Europe; Latin America; changes in Spanish, European and foreign laws, regulations and taxes.

Operating factors: technical problems; changes in operating conditions and costs; capacity to execute cost-reduction plans; capacity to maintain a stable supply of coal, fuel and gas; acquisitions or restructuring; capacity to successfully execute a strategy of internationalisation and diversification.

Competitive factors: the actions of competitors; changes in competition and pricing environments; the entry of new competitors in our markets.

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

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