

ENDESA, S.A.
and Subsidiaries

**Consolidated Management Report
for the year ended 31 December
2015**

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

Madrid, 23 February 2016

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 December 2015

ENDESA drew up this consolidated management report for the year ended 31 December 2015 in accordance with the "Guidelines for drawing up Management Reports of Listed Companies" issued by the Group of Experts appointed by the Spanish 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 gas business, and those preliminary or supplementary to the corporate purpose and management of the corporate Group, comprising investments in other companies. The Company will carry out the activities constituting its corporate purpose in Spain and abroad, either directly or through investment 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 value-added products and services (VAPS) 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.

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. 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, Belgium and the Netherlands, from its platform in Spain and Portugal.

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

Market in Spain.

- Generation: 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. Electricity generation is a deregulated activity, although Non-Mainland Territories are subject to specific regulations which address the particular nature of their geographical location, whereby their remuneration is regulated.

- Supply of electricity, gas and value added services and products (PSVA): This activity consists of supplying energy on the market and value added services and products to customers. The supply of energy is a deregulated activity.
- Integral management of the electricity generation and supply businesses: ENDESA's electricity generation and supply businesses are managed in an integrated manner, in order to optimise its position as compared to managing these activities separately.
- Electricity distribution: The purpose of the electricity distribution activity is to distribute electricity to the consumption points. Electricity distribution is a regulated activity.

Market in Portugal:

- Generation: Electricity generation in Portugal is carried out in a competitive environment.
- Supply of electricity and gas. This activity is deregulated in Portugal.

Renewable energy in the Spanish market.

ENDESA participates in the renewable energy field through ENEL Green Power España, S.L. (EGPE), a company in which it holds 40% of the share capital, with the remaining 60% owned by ENEL Green Power, S.p.A., a company controlled by ENEL, S.p.A.

1.3. Organisational structure.

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

At 31 December 2015, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberoamérica, S.L.U.

At the date on which this consolidated management report was drawn up, the composition of ENDESA'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 - Audit	Enrique Durand Baquerizo
General Manager - Administration, Finance and Control	Paolo Bondi
General Manager - Communication	Alberto Fernández Torres
General Manager - Media	José Luis Puche Castillejo
General Manager - Human Resources and Organisation	Andrea Lo Faso
General Manager - Institutional Relations and Regulation	José Casas Marín
General Manager - Sustainability	Helena María Malaxechevarría Grande
General Manager - Purchasing	Pablo Azcoitia Lorente
General Manager - ICT	Manuel Fernando Marín Guzmán
General Manager - Supply	Javier Uriarte Monereo
General Manager - Generation	Manuel Morán Casero
General Manager - Energy Management	Alvaro Luis Quiralte Abelló
General Manager - Infrastructure and Networks	Francesco Amadei
General Manager - Nuclear Power	Juan María Moreno Mellado
General Secretary and Secretary of the Board of Directors	Borja Acha Besqa

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 attached to this consolidated management report as Appendix I.

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.

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

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

This company was set up on 22 September 1999 to oversee ENDESA's generation and mining assets. Among other interests, ENDESA Generación, S.A.U. holds a 100% interest in Gas y Electricidad Generación, S.A.U. (100%) and Unión Eléctrica de Canarias Generación, S.A.U. (100%), a 40% interest in ENEL Green Power España, S.L. (EGPE), controlled by ENEL Green Power, S.p.A., which represents the ENEL Group's renewable energy business in Spain, and a 50% interest in Nuclenor, S.A., the company that owns the Santa María de Garoña nuclear power plant.

At 31 December 2015, Endesa's net installed capacity at ordinary regime facilities was 21,207 MW, of which, 16,633 MW corresponded to the mainland electricity system and the remaining 4,574 MW to Non-Mainland Territories (Balearic and Canary Islands and the cities of Ceuta and Melilla). In Spain, ENDESA had total net output, in 2015, of 73,061 GWh (see Section 2.4 Statistical Appendix of 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., which engages in regulated electricity distribution activities, and in ENDESA Ingeniería, S.L.U. (100%)

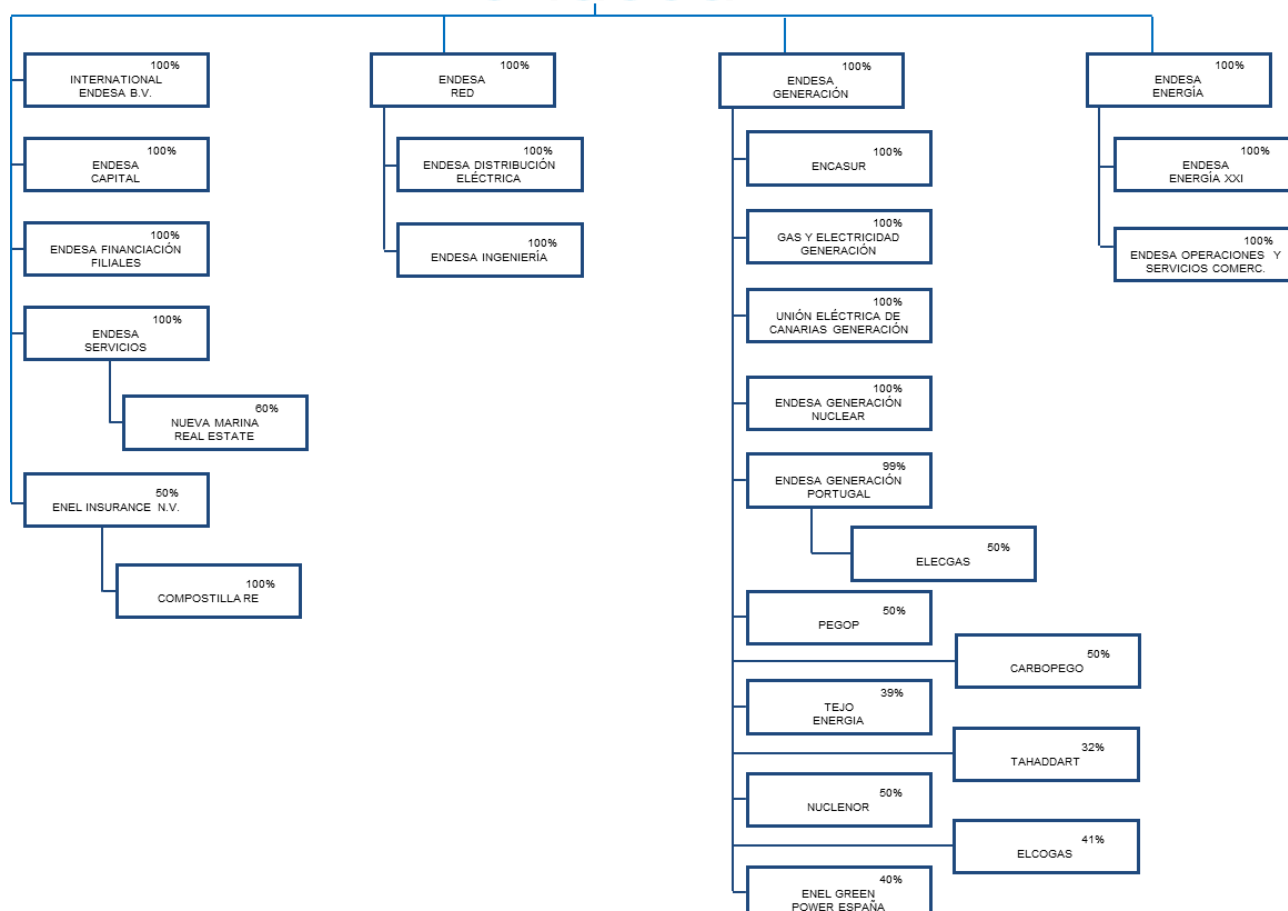
At 31 December 2015, ENDESA distributed electricity in 27 Spanish provinces and across 10 Autonomous Communities (Catalonia, Andalusia, the Balearic Islands, the Canary Islands, Aragon, Extremadura, Castile-Leon, Navarre, Valencia and Galicia), covering a total area of 184,904 km² with a total population of nearly 22 million. Also at this date, ENDESA had over 12 million distribution customers, and in 2015, its network supplied total power of 114,190 GWh, measured at power plant busbar (see Section 2.4 Statistical Appendix of this Consolidated Management Report).

Energy supply: ENDESA Energía, 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 and added-value products and services (AVPS) to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market. ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., a company acting as a supplier of reference for ENDESA, and ENDESA Operaciones y Servicios Comerciales, S.L.U., which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U. supplies the deregulated markets of Germany, Belgium, France, the Netherlands and Portugal.

In 2015, ENDESA provided 92,899 GWh to 11.1 million supply points in the electricity market. ENDESA supplied total gas of 71,587 GWh in 2015, and at 31 December 2015, its customer portfolio in the conventional natural gas market was made up of 1.5 million supply points (see Section 2.4 Statistical Appendix of this Consolidated Management Report).

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2015:



Appendix I to the consolidated financial statements for the year ended 31 December 2015 lists ENDESA's Subsidiaries and Joint Operations Entities.

Appendix II to the consolidated financial statements for the year ended 31 December 2015 lists ENDESA's Associates and Joint Ventures.

2. Business trends and results in 2015.

2.1. Comparative information.

On 23 October 2014, ENDESA completed the disposal of its Latin America business and on 31 July 2014, the balances of these assets and liabilities were transferred to "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations", respectively. The assets transferred ceased to be depreciated and amortised as of that date.

Following the sale of these assets, all revenue and expenses corresponding to the companies which were disposed of in 2014 are now recognised as discontinued operations and included under "Income after tax from discontinued operations" in the Consolidated Income Statement for the year ended 31 December 2014 (see Section 2.3 Analysis of Results of this Consolidated Management Report).

The references in the following sections of this Consolidated Management Report for the year ended 31 December 2014, relate to continuing operations (i.e. the Business in Spain and Portugal).

2.2. Consolidated results.

ENDESA reported net income of Euros 1,086 million (-67.5%) in 2015.

ENDESA reported net income of Euros 1,086 million in 2015; Euros 2,251 million lower than that obtained in 2014, as the latter included a net gain generated by the disposal of the Latin America business in the amount of Euros 1,764 million and the net income of Euros 623 million generated by this business at the date of the transaction.

Income from continuing operations, which for both periods only reflects income obtained by the Business in Spain and Portugal, stood at Euros 1,090 million in 2015, 15.6% more than in the same period last year.

The table below shows the breakdown of net income and income after tax from continuing operations for ENDESA's businesses and their year-on-year change:

Million Euros

	Net income				Income after tax from continuing operations			
	2015	2014	% chg 2014	% contributions of the total	2015	2014	% chg 2014	% contributions of the total
Business in Spain and Portugal	1,086	950	14.3	100.0	1,090	943	15.6	100.0
Generation and supply	506	363	39.4	46.6	506	363	39.4	46.4
Distribution	581	681	(14.7)	53.5	585	681	(14.1)	53.7
Structure and Others ⁽¹⁾	(1)	(94)	(98.9)	(0.1)	(1)	(101)	(99.0)	(0.1)
Business in Latin America	-	2,387	(100.0)	N/A	-	-	-	N/A
TOTAL	1,086	3,337	(67.5)	100.0	1,090	943	15.6	100.0

(1) Structure, Services and Adjustments.

Segment information is included in Note 33 of the Notes to the Consolidated Financial Statements for the financial year ended 31 December 2015.

2.3. Analysis of results.

The net income from continuing operations after tax and non-controlling interests totalled Euros 1,086 million in 2015, up Euros 136 million on 2014 (+14.3%).

ENDESA's contribution margin in 2015, amounted to Euros 5.481 million, Euros 57 million less than the previous year (-1.0%), which, together with a fall in fixed costs of Euros 17 million (-0.7%), led to EBITDA of Euros 3,039 million (-1.7%).

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

Million Euros

	EBITDA				EBIT			
	2015	2014	% chg 2014	% contribution of total	2015	2014	% chg 2014	% contribution of total
Generation and supply	1,570	1,550	1.3	51.7	814	692	17.6	50.9
Distribution	1,569	1,691	(7.2)	51.6	906	967	(6.3)	56.7
Structure and Others ⁽¹⁾	(100)	(151)	(33.8)	(3.3)	(122)	(187)	(34.8)	(7.6)
TOTAL	3,039	3,090	(1.7)	100.0	1,598	1,472	8.6	100.0

(1) Structure, Services and Adjustments.

The following factors must be taken into account when looking at EBITDA for 2015:

- In 2015, the deregulated business gross margin normalised, compared to the extraordinarily positive performance seen in 2014. The deregulated business gross margin was reduced due to the higher cost of buying electricity caused by the increase in average weighted price in the wholesale market (Euros 51.7/MWh in the first half of 2015; +23.1%), which in turn led to higher average electricity purchase prices and a higher tax on generation. This year, the gross margin in the deregulated gas business was also negatively affected by greater competitive pressure.

- In 2015, a provision of Euros 380 million (Euros 349 million in 2014) was recorded within the framework of the various workforce optimisation projects included in ENDESA's restructuring and reorganisation plan.
- The unfavourable factors described in the paragraphs above, were almost offset by the combined effects of a higher underlying selling price to customers in the deregulated market because of the recognition of a gain of Euros 184 million from the forward sale carried out on 17 December 2015, relating to European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) as per EU Regulation 389/2013, articles 58-61, and the containment of other fixed costs.

EBIT of Euros 1,598 million was recorded in 2015; an increase of Euros 126 million (+8.6%) on 2014, as a result of lower depreciation charges, due mainly to the extension of the useful life of the nuclear and combined cycle plants from 1 October 2014 (Euros 129 million).

Revenue: Euros 20,299 million (-5.6%).

Revenue totalled Euro 20,299 million in 2015, versus Euro 21,512 million in 2014. Of this amount, revenue from sales accounted for Euros 19,281 million (-5.8%), while other operating revenues accounted for Euros 1,018 million (-2.0%).

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

Million Euros

	Revenue				Other operating revenues			
	2015	2014	% chg 2014	% contribution of total	2015	2014	% chg 2014	% contribution of total
Generation and supply	17,166	18,352	(6.5)	89.0	745	797	(6.5)	73.2
Distribution	2,264	2,252	0.5	11.7	318	279	14.0	31.2
Structure and Others ⁽¹⁾	(149)	(131)	13.7	(0.7)	(45)	(37)	21.6	(4.4)
TOTAL	19,281	20,473	(5.8)	100.0	1,018	1,039	(2.0)	100.0

(1) Structure, Services and Adjustments.

Sales.

Sales in 2015 were as follows:

Million Euros

Sales	2015	2014	Difference	% chg
Electricity sales	14,168	14,841	(673)	(4.5)
Sales to the deregulated market	8,425	8,165	260	3.2
Supply to customers in deregulated markets outside Spain	987	926	61	6.6
Sales at regulated prices	2,885	3,045	(160)	(5.3)
Wholesale market sales	815	939	(124)	(13.2)
Compensation for Non-Mainland Territories	1,044	1,754	(710)	(40.5)
Other electricity sales	12	12	-	-
Gas sales	2,378	2,862	(484)	(16.9)
Regulated revenue from electricity distribution	2,048	2,038	10	0.5
Other sales and services rendered	687	732	(45)	(6.1)
TOTAL	19,281	20,473	(1,192)	(5.8)

Mainland electricity demand rose by 1.8% in 2015 against the previous year (+1.6% adjusted for working days and temperature).

ENDESA's mainland ordinary regime output totalled 60,686 GWh in the period, 5.5% greater than 2014 due to the increased output at combined cycle plants (+94.7%), coal-fired plants (+9.5%) and nuclear plants (+4.0%), offsetting the reduction in hydroelectric output (-18.3%). Nuclear and hydroelectric energy accounted for 54.3% of ENDESA's mainland generation mix under the ordinary regime (58.3% in 2014), compared with 52.0% for the rest of the sector (58.7% in 2014).

ENDESA's output in non-mainland territories was 12,375 GWh, an increase of 1.6% compared to 2014.

ENDESA obtained a market share of 38.8% in mainland generation under the ordinary regime, a 43.5% share in distribution and a 35.7% share in sales to customers in the deregulated market.

Supply to customers in the deregulated market.

ENDESA had 5,082,457 customers in the deregulated market at the end of September 2015, a 11.9% rise in the number at 31 December 2014: 4,212,300 (+11.6%) in the Spanish mainland market, 692,689 (+14.0%) in the Non-Mainland Territories market and 117,468 (+11.3%) in European deregulated markets other than Spain.

ENDESA sold a total of 77,965 GWh to these customers in 2015, a 0.8% increase on 2014.

Sales in the Spanish deregulated market totalled Euros 8,425 million, which is Euros 260 million more than the figure for 2014 (+3.2%) due to the higher average sales price and increase in the number of customers. Revenue from sales to deregulated European markets, other than Spain, totalled Euros 987 million, up Euro 61 million or +6.6% compared to 2014.

Sales at regulated prices.

In 2015, ENDESA sold 14,934 GWh to customers via its supplier of reference under regulated prices, which is down 9.8% on 2014.

These sales generated revenue of Euros 2,885 million in 2015, down 5.3% in year-on-year terms, as the fall in physical sales resulting from lower customer numbers at regulated prices (-9.5%) and the increased cost of energy, were not offset by the higher average selling price.

Gas sales.

ENDESA sold 71,587 GWh to customers in the natural gas market in 2015, which represents a 3.7% fall on the 2014 figure.

Revenue from gas sales totalled Euros 2,378 million, down Euros 484 million (-16.9%) on 2014, due to the drop in physical sales and average selling price.

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

Compensation for Non-Mainland Territories generation stranded costs in 2015 amounted to Euros 1,044 million, a decrease of Euros 710 million (-40.5%) on 2014. This compensation was estimated based on the Royal Decree which regulates the production of electricity and the procedure for dispatching power in Non-Mainland Territories Electricity Systems published on 1 August 2015 (see Section 3 Regulatory Framework, of this Consolidated Management Report).

In 2014, the amount recorded under this heading also included a positive impact of Euros 76 million related to the estimated effect on revenue from generation in Non-Mainland Territories ("TNP") in 2012 and 2013 based on the draft Royal Decree regulating the production of electricity and the procedure for dispatching power in Non-Mainland Territories Electricity Systems available in January 2015.

Taking into account the above-mentioned factors, the compensation for Non-Mainland Territories ("TNP") generation stranded costs would have decreased by Euros 786 million in 2015, compared to that of 2014, mainly due to the reduction in fuel costs resulting from falling raw material prices and the higher revenue from the application of higher wholesale market prices being charged for Non-Mainland Territories ("TNP") generation sales.

Electricity distribution.

ENDESA distributed 114,190 GWh in the Spanish market in 2015, 2.9% more than the previous year.

Revenue from regulated distribution activities in 2015 totalled Euro 2,048 million, up Euros 10 million (+0.5%) on 2014.

Other operating revenues.

Other operating revenues totalled Euros 1,018 million, down Euros 21 million, year on year (-2.0%). The heading "Other operating revenues" includes:

- The gain of Euros 184 million from the forward sale of 25 million tonnes of European Union Allowances (EUAs) obtained in the Emission Reduction Units (ERUs) / Certified Emission Reductions (CERs) swap transaction.
- The fall in revenue of Euros 258 million (-37.7%) from the valuation and settlement of energy derivatives, which is offset by the Euro 341 million (-43.4%) reduction in valuation expenses and losses on the settlement of energy derivatives in the same category recognised under "Other variable procurements and services" which barely affected the contribution margin.

Operating expenses.

Operating expenses totalled Euros 18,803 million in 2015, 6.7% less than in 2014.

The breakdown of operating expenses is as follows:

Million Euros				
	2015	2014	Difference	% chg
Procurement and services	14,818	15,974	(1,156)	(7.2)
Power purchased	4,795	5,126	(331)	(6.5)
Cost of fuel consumed	2,123	2,486	(363)	(14.6)
Transmission costs	5,781	5,918	(137)	(2.3)
Other variable procurements and services	2,119	2,444	(325)	(13.3)
Personnel expenses	1,332	1,245	87	7.0
Other fixed operating expenses	1,212	1,316	(104)	(7.9)
Depreciation and amortisation, and impairment losses	1,441	1,618	(177)	(10.9)
TOTAL	18,803	20,153	(1,350)	(6.7)

Procurements and services.

Procurements and services totalled Euros 14,818 million in 2015, 7.2% less than in 2014. Details of these costs are as follows:

- Power purchased in 2015 dropped by Euros 331 million (-6.5%) to Euros 4,795 million as a result of the increase in the average purchase price of the electricity acquired in the market as a consequence of higher average weighted wholesale market prices (Euros 51.7/MWh, +23.1%), which was offset by the decrease in the volume of gas acquired for retail sales.
- The cost of the fuel consumed in 2015 was Euros 2,123 million, down 14.6% (Euros 363 million) as the increase in fossil-fuel output was offset by the lower average price paid for fuel.
- Transmission energy costs were down 2.3% as a result of the reduction in power sold.
- The heading "Other variable procurements and services" totalled Euros 2,119 million; down Euros 325 million on 2014. This change was mainly due to the Euros 341 million (-43.4%) reduction in expenses relating to energy derivatives, partially offset by a Euros 258 million (-37.7%) decrease in revenue relating to this item, recognised under "Other operating revenues" and the Euros 32 million rise in CO₂ emissions costs on the back of higher fossil-fuel output.

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

Million Euros

	Contribution margin			
	2015	2014	% chg 2014	% contribution of total
Generation and supply	3,113	3,245	(4.1)	56.8
Distribution	2,445	2,390	2.3	44.6
Structure and Others ⁽¹⁾	(77)	(97)	(20.6)	(1.4)
TOTAL	5,481	5,538	(1.0)	100.0

(1) Structure, Services and Adjustments.

Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 2,544 million in 2015, a reduction of Euros 17 million (-0.7%) with respect to 2014.

Personnel expenses in 2015 stood at Euros 1,332 million, an increase of Euros 87 million (+7.0%) with respect to 2014. Personnel expenses in both 2015 and 2014 were affected by the changes in provisions and staff restructuring expenses registered in both years, particularly of note are the allocation of provisions for contract suspensions (Euros 380 million in 2015 and Euros 349 million in 2014) to cover termination benefits and labour risks (net provision of Euros 42 million in 2015 and a net reversal of Euros 25 million for this same item in 2014), and the higher costs recorded in 2015 for adjustment of the provisions for workforce restructuring plans and contract suspensions (Euros 27 million).

Excluding these effects, personnel expenses would have fallen by Euros 38 million (-3.9%), due to a 4.8% reduction in the average workforce.

"Other fixed operating expenses", totalled Euros 1,212 million, a fall of Euros 104 million (-7.9%) largely due to the reduction in of repair and conservation costs (Euros 78 million; equivalent to -17.8%), as part of the plans to improve operating efficiency, and the implementation of cost-cutting measures.

Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 1,441 million in 2015, Euros 177 million (-10.9%) less than in 2014. This change included the effect of lower depreciation charges resulting from the extension of the useful life of the nuclear and combined cycle plants from 1 October 2014, which resulted in a Euros 129 million decrease in depreciation and amortisation in 2015.

In 2015, this heading includes an impairment loss of Euros 53 million for property, plant and equipment, of which Euros 31 million corresponds to the abandonment of the project to increase capacity at the Moralets hydroelectric power plant and the sunk costs from the project at Girabolhos (Portugal) hydroelectric power plant; Euros 8 million to generation assets that are outside the mainland system the capacity of which is not expected to be required in the system, and Euros 7 million relate to the feasibility studies of some power plants that will not be carried out.

In 2014, this heading also included the allocation of a provision for impairment of land value for the sum of Euros 96 million, Euros 65 million of which referred to those which ENDESA should receive in application of the ruling of the Supreme Court of Justice in favour of Josel, S.L., and Euros 31 million to register losses in the value of certain plots of land to be used as sites to build new electrical power plants, whose construction is not included in the most recently approved industrial plan. Under this heading, an impairment loss of Euros 74 million was also recorded for the concessions and other assets related to them for Girabolhos hydroelectric plant of (Euro 43 million) and Distribuidora Eléctrica del Puerto de la Cruz, S.A. (Euro 31 million).

Net financial loss: Euros 186 million (+12.0%).

Net financial income reported for 2015 was Euros 186 million (negative), a year-on-year increase of Euros 20 million (+12.0%).

Net financial expenses totalled Euros 174 million, up Euros 4 million year-on-year, while net exchange losses were Euros 12 million, compared to a Euros 4 million gain at the end of 2014.

Movements in long-term interest rates in both 2015 and 2014 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and for contraction

suspensions for the sums of Euros 47 million (positive) and Euros 2 million (negative), respectively. Likewise, in 2014, revenues of Euros 24 million were recognised in relation to the financing of the revenue shortfall from regulated activities in Spain, whereas in 2015, no amounts were recorded.

Stripping out the impact of these factors, net financial expenses would have increased by Euros 25 million (+12.8%), due to the rise in average net financial debt between the two periods as a result of ENDESA's releveraging in the fourth quarter of 2014, through an extraordinary dividend paid to shareholders for the amount of Euros 6,353 million.

Profit loss of companies accounted for using the equity method.

In 2015, companies accounted for using the equity method contributed a net income of Euros 15 million (negative), compared to Euros 44 million (negative) in 2014.

In 2015, this heading also included a negative impact of Euros 58 million on the 50% interest in Nuclenor, S.A. due to the recognition of a provision to cover the estimated higher costs to be incurred by this company given the extra time the Nuclear Safety Council (CSN) is taking to issue its statutory report on the request to renew the operating licence for the Santa María de Garoña nuclear power plant (a loss of Euros 56 million for this same item was recorded in 2014).

In 2014, the net income of companies accounted for using the equity method included a provision amounting to Euros 51 million to cover the estimated cost for ENDESA to discontinue the activity of Elcogás, S.A., in which it holds a 40.99% stake.

On 18 September 2015, Spain's Official State Gazette ("BOE") published the Resolution of 31 July 2015, handed down by the Ministry of Industry, Energy and Tourism's Energy Policy and Mines department, authorising Elcogas, S.A. to close the 320 MW integrated combined-cycle gasification thermoelectric power plant in the municipality of Puertollano (Ciudad Real), within a 3 month deadline from the date of this Resolution. Elcogas, S.A. must also partially dismantle the power plant within a period of four years from the date of this Resolution. On 30 October 2015, the Ministry approved a resolution granting a three months extraordinary, and one-time, extension for the closure until 31 January 2016, for which the company presented a feasibility plan.

On 21 December 2015, the board of directors of Elcogas, S.A. approved the feasibility plan for submission to the Ministry of Industry, Energy and Tourism and which included the minimum conditions needed to make the company viable. On 18 January 2016, the Ministry rejected the proposed plan, and as a result, in the absence of a feasibility plan, on 21 January 2016, Elcogas, S.A.'s board agreed to proceed with the decommissioning and closure of the plant within the maximum period set.

Gains on disposal of assets.

In 2015, the following transactions were carried out:

- On 23 January 2015, an agreement was signed to transfer the assets of the Chira-Soria hydroelectric plant in Gran Canaria, owned by Unión Eléctrica de Canarias Generación, S.A.U., to Red Eléctrica de España, S.A.U., for the price of Euros 11 million, with a gross capital gain of Euros 7 million.
- Additionally, on 3 February 2015 ENDESA formalised with Enagás Transporte, S.A.U. the sale of all the shares of Compañía Transportista de Gas Canarias, S.A. The total amount of the transaction, which includes the price of the shares and the participating loan including accrued interest was Euros 7 million, resulting in a gross capital gain of Euros 3 million.
- On 1 July 2015, ENDESA sold its 22% ownership interest in the share capital of Ayesa Advanced Technologies, S.A. The sale was carried out at the price of Euros 6 million, generating a gross capital gain of less than Euros 1 million.
- On 5 August 2015, ENDESA sold its entire ownership interest in Gasificadora Regional Canaria, S.A. for Euros 6 million. The sale did not generate any gains or losses for the company.

Profit after tax from discontinued operations.

ENDESA's net income after tax from discontinued operations stood at Euros 3,045 million in 2014. Net income includes the following:

- Net gains amounting to Euros 1,764 million obtained in the disposal of the Latin America business.
- Net income before the participation of non-controlling interests amounting to Euros 1,281 million from ENDESA's Latin America business until the date of disposal. Having deducted the part corresponding to non-controlling interests, the contribution of the Latin America business to the net income of ENDESA in 2014, was Euros 623 million.

On 23 October 2014, ENDESA, S.A. disposed of its business in Latin America for Euros 8,253 million, through the sale to ENEL Iberoamérica, S.L.U. of 796,683,058 shares (100% of its share capital) in ENEL Latinoamérica, S.A.U. and 9,967,630.058 shares (20.3% of its share capital) in Enersis Américas, S.A. (formerly known as Enersis, S.A.).

ENEL Latinoamérica, S.A.U. was established on 26 January 1998 to administer ENDESA's presence in the Latin American market, with Enersis Américas, S.A.(formerly known as Enersis, S.A.) as its main investee holding a 40.32% stake. Enersis Américas, S.A.(formerly known as Enersis, S.A.) is a holding company based in Chile with controlling interests in electricity generation and distribution companies in 5 Latin American countries. Its shares are traded on the Santiago and New York stock exchanges and the Latibex.

The joint disposal of 100% of ENEL Latinoamérica, S.A.U. and of the 20.3% in Enersis Américas, S.A.(formerly known as Enersis, S.A.) means that, at the date these transactions were finalised, ENDESA, S.A. lost control of both companies and, therefore, all the companies controlled by the latter. Therefore, these companies are now excluded from the ENDESA, S.A. scope of consolidation. Appendix III to the consolidated financial statements for the year ended 31 December 2015 lists the companies excluded from ENDESA's consolidation scope at the date of this transaction.

On 31 July 2014, the balances of these assets and liabilities were transferred to "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations", respectively. From this point onwards, the transferred assets ceased to be depreciated or amortised and all revenues and expenses corresponding to the divested companies, and generated in 2014, up until the date the transaction was finalised, were considered discontinued operations and included under "Income after tax from discontinued operations" in the consolidated income statements for the year ended 31 December 2014.

The carrying amount of the divested assets and liabilities net of the value of the non-controlling interests at the date on which the disposal was finalised, amounted to Euros 5,933 million, to which Euros 4 million had to be added for the costs incurred in the transaction, producing gross capital gains of Euros 2,316 million on the divestment. Corporate income tax expenditure on the transaction of Euros 279 million must be deducted from this amount, producing capital gains after tax of Euros 2,037 million.

Translation differences and the gains and losses on cash flow hedges recognised in the Parent's equity at that date amounted to a Euros 239 million and Euros 34 million (negative), respectively, which were recognised under "Income after tax from discontinued operations" in the consolidated income statement for 2014. The transaction therefore had a positive impact on the 2014 consolidated income statement of Euros 1,764 million, which was recognised under "Income after tax from discontinued operations".

2.4. Statistical Appendix

Key figures

GWh

Electricity generation output	2015	2014	% chg
Mainland	60,686	57,502	5.5
Nuclear	25,756	24,762	4.0
Coal	24,277	22,176	9.5
Hydroelectric	7,176	8,778	(18.3)
Combined cycle (CCGT)	3,477	1,786	94.7
Non-Mainland Territories	12,375	12,179	1.6
TOTAL ⁽¹⁾	73,061	69,681	4.9

(1) At power plant busbars.

MW

Gross installed capacity	31 December 2015	31 December 2014	% chg
Hydroelectric	4,765	4,759	0.1
Conventional thermal	8,278	8,798	(5.9)
Nuclear	3,443	3,443	-
Combined cycle (CCGT)	5,678	5,677	-
TOTAL	22,164	22,677	(2.3)

MW

Net installed capacity	31 December 2015	31 December 2014	% chg
Hydroelectric	4,721	4,721	-
Conventional thermal	7,723	8,229	(6.1)
Nuclear	3,318	3,318	-
Combined cycle (CCGT)	5,445	5,445	-
TOTAL	21,207	21,713	(2.3)

GWh

Electricity sales	2015	2014	% chg
Reference supply	14,934	16,560	(9.8)
Deregulated market	77,965	77,368	0.8
TOTAL	92,899	93,928	(1.1)

Thousands

Number of customers (electricity) ⁽¹⁾	31 December 2015	31 December 2014	% chg
Regulated market customers	6,029	6,663	(9.5)
Supply on the deregulated market	5,083	4,543	11.9
TOTAL	11,112	11,206	(0.8)

(1) Supply points.

Percentage (%)

Trends in demand for electricity ⁽¹⁾	2015	2014
Mainland ⁽²⁾	1.8	(1.2)

(1) Source: Red Eléctrica de España, S.A. (REE).

(2) Adjusted for working days and temperature, trends in mainland electricity demand were +1.6% in 2015 and -0.2% in 2014

Percentage (%)

Market share (electricity) ⁽¹⁾	2015	2014
Generation under the ordinary regime ⁽²⁾	38.8	37.7
Distribution	43.5	43.1
Supply	35.7	36.9

(1) Source: In-house.

(2) Mainland.

GWh

Gas sales	2015	2014	% chg
Deregulated market	47,034	45,622	3.1
Regulated market	1,039	964	7.8
International market	14,926	9,493	57.2
Wholesale business	8,588	18,264	(53.0)
TOTAL ⁽¹⁾	71,587	74,343	(3.7)

(1) Excluding own generation consumption

Thousands

Number of customers (gas)	⁽¹⁾	2015	2014	% chg
Regulated market		288	202	42.6
Deregulated market		1,173	1,004	16.8
TOTAL		1,461	1,206	21.1

(1) Supply points

Percentage (%)

Trends in demand for gas	⁽¹⁾	2015	2014	
Spain		4.4		(9.6)

(1) Source: Enagás, S.A.

Percentage (%)

Market share (gas)	⁽¹⁾	2015	2014	
Deregulated market		16.5		16.2
TOTAL		16.5		16.2

(1) Source: In-house.

GWh

Energy distributed	2015	2014	% chg
Business in Spain and Portugal	114,190	110,945	2.9
TOTAL	114,190	110,945	2.9

(1) At power plant busbars.

KM

Distribution and transmission networks	31 December 2015	31 December 2014	% chg
Business in Spain and Portugal	317,675	314,528	1.0

Percentage (%)

Energy losses	2015	2014	% chg
Business in Spain and Portugal	11.3	10.4	8.4

Minutes

Installed Capacity Equivalent Interruption Time (ICEIT)	2015	2014	% chg
Business in Spain and Portugal (average)	49	48	2.1

(1) Corresponds to Spain.

Economic and Financial Data

Euros

Valuation Parameters (Euros)		2015	2014	% chg
Net earnings per share	(1)	1.03	3.15	(67.5)
Cash flow per share	(2)	2.51	3.51	(28.5)
Book value per share	(3)	8.53	8.10	5.4

(1) Profit 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

Profitability indicators (%)		2015	2014	
Return on equity	(1)	12.33		18.89
Return on assets	(2)	3.62		7.70
Economic profitability	(3)	7.62		5.59

(1) Profit attributable to the Parent / average equity

(2) Profit attributable to the Parent / average total assets.

(3) EBIT / average PP&E.

Million Euros

	Leverage ratio	
	31 December 2015	31 December 2014
Net financial debt:	4,323	5,420
Non-current interest-bearing loans and borrowings	4,680	6,083
Current interest-bearing loans and borrowings	-	1
Cash and cash equivalents	(346)	(648)
Derivatives recognised as financial assets	(11)	(16)
Equity:	9,039	8,575
Of the Parent	9,036	8,576
Of non-controlling interests	3	(1)
Leverage ratio (%)	47.8	63.2

(*) Net financial debt / Equity.

Financial indicators		2015	2014
Liquidity ratio	(1)	0.85	0.97
Solvency ratio	(2)	0.96	0.99
Debt ratio	(3)	32.35	38.73
Debt coverage ratio	(4)	1.42	1.75

(1) Current assets / Current liabilities.

(2) (Equity + Non-current liabilities) / Non-current assets

(3) Net financial debt / (Equity + Net financial debt) (%).

(4) 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 2015.

There follows the main changes in the Spanish regulatory framework that either were approved in 2015 or had a major effect on the consolidated financial statements for that year.

Royal Decree 198/2015, of 23 March 2015, implementing article 112 bis of the consolidated text of the Water Act, regulating the fees applicable for using continental waters to generate electric power in EU areas

Law 15/2012, of 27 December 2012, modified the consolidated text of the Water Act, introducing a fee for the use of continental waters to produce electric power, applicable from 1 January 2013. The text established a levy of 22% of the economic value of the energy produced and a 90% reduction for hydroelectric plants with a capacity of 50 MW or less and for pumped-storage facilities with a capacity of over 50 MW.

On 25 March 2015, Royal Decree 198/2015, of 23 March 2015, was published, regulating fees payable on hydroelectric production. This specifies that the fee is only payable in intercommunity basins, i.e. those for which the State has a legal responsibility.

With regard to the accounting criteria for facilities' installed capacity, and hence for determining whether they are entitled to the 90% reduction, it has been clarified that a facility's installed capacity is understood to be the sum of the capacity of all groups installed at the facility, although the total capacity of each facility included in the water concession may not be subdivided into smaller individual groups for purposes of calculating the fee payable. In mixed pump facilities, the tax base must be segregated, differentiating between the turbine energy from pumping (entitled to the 90% reduction) and power produced from other sources. Turbine energy from pumping will account for 70% of pump consumption.

2% of the amount collected will be considered to be revenue for the basin organisation, while the remaining 98% will go to the State Treasury. The General State Budget ("PGE") will allocate at least an amount equivalent to the estimated amount for activities to protect and improve public land used for hydroelectric generation.

Law 8/2015, of 21 May 2015, amending Law 34/1998, of 7 October 1998, on the hydrocarbons sector and establishing certain tax and non-tax measures in respect of the exploration, research and exploitation of hydrocarbons

This Law, which was published on 22 May, amends the previous Hydrocarbons Law to bring it more into line with the current situation so as to increase competition and transparency in the hydrocarbons sector, reduce fraud, ensure greater consumer protection, reduce costs for the consumer and adapt the rules on infringements and penalties.

With respect to natural gas, the law seeks to create an organised natural market that offers consumers more competitive and transparent prices and allows the entry of new suppliers to increase competition. An operator for the organised gas market will also be appointed; any authorised natural gas installer may carry out inspections (this was previously the responsibility of distributors); the entry of new suppliers is encouraged through the mutual recognition of licences to supply natural gas to other EU-member countries where there is an existing agreement; and certain measures have been adopted regarding minimum security inventories so as to, but without impairing the security of supply, give suppliers greater flexibility at a lower cost, enabling the Corporation for Strategic Oils Reserves (CORES) to maintain strategic natural gas inventories.

On 31 October 2015, Royal Decree 984/2015, of 30 October 2015, was published, which regulates the organised gas market and third-party access to the installations of the natural gas system. This Royal Decree contains the basic regulations for the operation of this gas market, along with other measures, such as the inspection procedures for gas installations.

Royal Decree 738/2015, of 31 July 2015, regulating the production of electricity and the procedure for dispatching power in Non-Mainland Territories Electricity Systems ("TNP").

On 1 August 2015, the Official State Gazette published the Royal Decree on Non-Mainland Territories ("TNP") generation.

The Royal Decree establishes a scheme similar to the previous system, made up of remuneration for fixed costs, which includes fixed investment and fixed operations and maintenance costs, and for variable costs, including fuel and variable operations and maintenance costs, and takes into account, within the costs of these systems, the taxes arising from Law 15/2012, of 27 December 2012, on fiscal measures for energy sustainability. Certain aspects of the methodology are changed in order to improve the efficiency of the system. The Royal Decree also implements matters already contained in Law 17/2013, of 29 October 2013, to guarantee supply and increase competition in these systems.

The Royal Decree entered into effect on 1 September 2015, whereby it includes, for certain measures, a transitional period from 1 January 2012. In accordance with additional provision eleven, the full and final effectiveness thereof is subject to the European Commission not raising any objections with regard to its compatibility with Community law.

In accordance with Electricity Sector Law 24/2013, of 26 December 2013, the financial remuneration rate of the net investment recognised will be tied to the return on the 10-year treasury bills on the secondary market plus the appropriate spread. For the first regulatory period, which runs until 31 December 2019, this rate will correspond to the average return of the price on the secondary market of the 10-year treasury bills for April, May and June 2013, plus 200 basis points.

Royal Decree 900/2015, of 9 October 2015, regulating the administrative, technical and economic requirements for the methods of supplying and generating electricity for self-consumption

On 10 October 2015, the Official State Gazette published this Royal Decree which regulates the administrative, technical and economic requirements for supplying and generating electricity for self-consumption, establishing a regulatory framework which guarantees the economic sustainability of the system and adequate distribution of system costs.

It also stipulates the tolls and charges payable for self-consumption, in accordance with Electricity Sector Law 24/2013, of 26 December 2013, which already established that self-consumption must contribute to financing the costs and services of the system in the same amount as other consumers. There are two exceptions to this rule where consumers are exempt from paying costs:

- Consumers on islands, and
- Small consumers with a contracted capacity of no more than 10 kW.

Accordingly, a record of the self-consumption facilities has been created in order for the System Operator and electricity distributors to be aware of the generation facilities in their networks and to therefore ensure the correct operation of the Electricity System under safe conditions.

Lastly, the Royal Decree gives consumers, installers and other agents a period of six months to adapt to its provisions.

Ministerial Order IET/2182/2015, of 15 October 2015, approving the distribution percentages for the amounts to be financed in respect of the subsidised electricity tariff ("bono social") for 2015.

This Order establishes the distribution percentages for the amounts to be financed in relation to the subsidised electricity tariff for 2015 for groups and companies simultaneously carrying out electricity generation, distribution and supply activities, whereby 41.26% corresponds to ENDESA, S.A.

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. Also, Ministerial Order IET/289/2015, of 20 February 2015, establishes the methodology used to assign savings obligations, as well as the parties subject to these obligations, their respective shares and economic equivalent for the 2015 period of application.

This Order also set ENDESA's contribution to the Energy Efficiency National Fund at Euros 30.2 million for 2015 and Euros 1.9 million corresponding to adjustments for 2014.

At the end of December 2015, the Ministry of Industry, Energy and Tourism began processing a proposed Ministerial Order establishing the contribution obligations to the Energy Efficiency National Fund for 2016, with the amount proposed for ENDESA for this year at Euros 25.3 million and Euros 0.8 million (negative) corresponding to adjustments for 2015.

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 11 December, 2015, Ministerial Order IET/2660/2015 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 transitional provision of Order IET/2735/2015, of 17 December 2015, on access tariffs for 2016, the Spanish National Markets and Competition Commission (CNMC) may be requested 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. Until the approval of the final tariff, the remuneration for 2015 will be paid on account.

Royal Decree 1074/2015, of 27 November, which modifies certain existing regulations in the electricity industry.

On 28 November 2015, the Official State Gazette published Royal Decree 1074/2015, of 27 November, which modifies certain regulations in the electricity industry in order to ensure they are adjusted to the Spanish government's electricity reforms of the last few years. Among others, Royal Decree 1955/2000, of 1 December, was modified in relation to the guarantees that must be provided in the authorisation process of facilities. Equally, matters relating to the point of supply information system and the load management System were also modified.

Proposed Ministerial Order regulating the capacity mechanism for environmental improvements at certain electricity production facilities.

In May 2015, the Ministry of Industry, Energy and Tourism began processing this proposed Ministerial Order intended to regulate a mechanism which will ensure the continuation of electricity production using domestic coal, thereby guaranteeing compliance with environmental regulations and favouring the diversification of fuels to guarantee security of supply.

Under this proposal, domestic coal-fired facilities that invest in environmental improvements to reduce nitrogen oxide emissions (in compliance with Industrial Emissions Directive 2010/75/EU) are entitled to receive Euros 90,000/MW. To be eligible for this payment, the companies owning these facilities must meet a series of requirements, including the obligation to purchase domestic coal equivalent to a minimum of 6,000,000 therms PCS/MW a year through to 31 December 2018, or be included in the Transitional National Plan. Applications for this payment must be submitted by 31 December 2016, along with the request for administrative authorisation.

On 30 September, the CNMC issued its report on the above-mentioned proposal, in which it questions, from the point of view of efficient economic regulation and competition, various aspects of the future regulation, and suggests referring the proposal to Brussels before its approval, since it contains elements that could be considered as state aid.

According to the information published by the Ministry of Industry, Energy and Tourism, it is continuing to work with the European Commission in studying the possibility of some type of aid mechanism during these years to guarantee the burning of Spanish coal in power stations, so as not to put the security of supply at risk, whilst being also being compatible with EU legislation.

2015 Electricity tariff.

Ministerial Order IET/2444/2014, of 19 December 2014, approved the access tariffs for 2015, leaving the then existing tariffs unchanged, and adding the values of the new access tariffs for the new voltage division between 1 kV and 36 kV, introduced into Spanish law by the Royal Decree 1054/2014, of 12 December 2014.

Likewise, additional provision five of this Order establishes that the remuneration set for the power distribution activity in said Ministerial Order for the year 2015 is definitive for all days of the year until the start of the first regulatory period established under Royal Decree 1048/2013, of 27 December 2013, which as indicated above, is 1 January 2016.

In addition, the hourly billing procedures for the Small Consumer Voluntary Price (SCVP) were published on 4 June. Under these procedures, as of 1 July, consumers with an integrated remote meter will be billed according to their real hourly consumption instead of their consumption profile. Notwithstanding the above, electricity companies have until 1 October 2015 to adapt their IT systems.

On 10 July, Royal Decree Law 9/2015 was approved; outlining urgent measures to reduce the tax burden borne by taxpayers in the Spanish Personal Income Tax (IRPF) and other economic measures. This Royal Decree Law introduced measures concerning the electricity sector. Of these we would not that, following the conclusion in 2014 of the mechanism on supply security restrictions which was regulated in Royal Decree 134/2010, of 12 February 2010, the 17% reduction in the unit price paid to customers to finance capacity payments. This will rise to 40% provisionally between 1 August and 31 December 2015. The Government does not believe that this measure alters the economic and financial sustainability of the electricity system required under Law 24/2013, of 26 December 2013.

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 ($30 < kV \leq 36$). 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 2015

Ministerial Order IET/2445/2014, of 19 December 2014, generally maintained the access tariffs with respect to 2014, having updated the Last Resort Tariffs against the lower cost of raw materials, with a 3-4% reduction in the variable component since January 2015. As a result of the lower cost of raw materials, the Last Resort Tariffs have dropped an average of 3% since July and 1.1% since October.

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.

4. Liquidity and capital resources.

4.1. Financial management.

As part of an efficient cost management and optimisation policy, the finance function in Spain is centralised in ENDESA. At the date on which this consolidated management report was drawn up, the Company had the necessary liquidity and access to medium- and 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 up to now in its financial structure: obtaining medium- and long-term funding that enables it to adjust its maturity calendar to the capacity of cash-flow generation envisaged in the business plan. To do this it uses external financing, especially through the banking market. It also obtains funds from public authorities that offer attractive terms for very long-term loans. The Company also has short-term financing that helps optimise the management of its working capital requirements and improve the cost of its debt. This financing is obtained through bank credit facilities with leading financial institutions or through the issue of eurocommercial paper.

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

Financial position.

In 2015, European sovereign debt interest rates were determined by European Central Bank (ECB) actions, which saw rates of below 2% maintained in Spanish government debt over the year. 10-year Spanish bond spreads against the German Bund increased from 107 basis points at the end of 2014 to 114 basis points at the end of 2015. Other debt-ridden economies in the eurozone similarly benefitted. The Italian, Portuguese and Greek 10-year bond spreads against the German Bund narrowed considerably in 2015 to 97, 189 and 766 basis points, respectively, at year-end, with improvements of 38, 26 and 155 basis points, respectively, as compared to 2014.

The ECB kept interest rates in 2015 at the historic low of 0.05% and continued to put into operation a series of expansionary monetary policies and supervisory measures for the banking system. The ECB continued with its asset purchase programme and has broadened the financial assets it can include, with the aim of improving the inflation outlook.

In 2015, euro long-term interest rates (10-year swap) rose from 0.81% at the beginning of the year to 1.00% by year-end. The short-term interest rate (3-month Euribor) dropped from 0.08% to -0.13%. The long-term interest rate on the US dollar also dropped in 2015 from 2.28% to 2.19%. Meanwhile, the 3-month interest rate for the US dollar increased 0.26% to 0.61% at the end of 2015.

The euro depreciated by 10% in 2015 compared to the US dollar (USD), causing the EUR/USD exchange rate to drop from 1.21 at the beginning of 2015 to 1.09 at year-end, affected by the divergence in monetary policy between the ECB and the US Federal Reserve (FED).

In Latin America, the currencies of Chile, Brazil, Colombia, Peru and Argentina strongly depreciated against the US dollar (USD) in 2015, against a backdrop of falling commodity prices and uncertainty due to slower growth in China. The currencies with the heaviest falls against the USD were the Argentine peso (-53%), the Brazilian real (-49%) and the Colombian peso (-34%). The Chilean peso (-17%) and the Peruvian nuevo sol (-15%) also depreciated in relation to the US dollar.

Financial debt

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

Million Euros

	31 December 2015	31 December 2014	Difference	% chg
Non-current interest-bearing loans and borrowings	4,680	6,083	(1,403)	(23.1)
Current interest-bearing loans and borrowings	-	1	(1)	(100.0)
SUBTOTAL	4,680	6,084	(1,404)	(23.1)
Cash and cash equivalents	(346)	(648)	302	(46.6)
Derivatives recognised as financial assets	(11)	(16)	5	(31.3)
Net financial debt	4,323	5,420	(1,097)	(20.2)

The structure of ENDESA's gross financial debt at 31 December 2015 and 2014, was as follows:

Million Euros

Currency	31 December 2015	31 December 2014	Difference	% chg
Euro	4,680	6,084	(1,404)	(23.1)
TOTAL	4,680	6,084	(1,404)	(23.1)
Fixed rate	3,537	5,073	(1,536)	(30.3)
Floating rate	1,143	1,011	132	13.1
TOTAL	4,680	6,084	(1,404)	(23.1)
Average life (years)	8.0	8.9	-	-
Average cost (%)	2.7	3.0	-	-

At 31 December 2015, 76% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 24% accrued interest at floating rates. At this 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 17 to the consolidated financial statements for the year ended 31 December 2015.

Main Financial Transactions.

The main financial transactions undertaken in 2015 include most notably the following:

- ENDESA renewed the credit facilities arranged with various financial institutions for a total of Euros 300 million and maturing in the first half of 2018.
- On 30 June 2015, ENDESA, S.A. increased the limit on the intercompany credit line with ENEL Finance International, N.V., from Euros 1,000 million to Euros 2,000 million. It also reduced the applicable spread to 80 basis points and extended the maturity to 30 June 2018. On 29 December 2015, ENDESA S.A. reduced the limit of this intercompany credit line from Euros 2,000 million to Euros 1,000 million, with the rest remaining unaltered. At 31 December 2015, no amount had been drawn down.
- On 30 June 2015, ENDESA, S.A. made a partial repayment of Euros 1,500 million on the long-term loan entered into with ENEL Finance International N.V. At 31 December 2015, the outstanding balance of this loan was Euros 3,000 million.
- On 25 September 2015, ENDESA, S.A. drew down on the loan granted by the European Investment Bank taken out in September 2014 for Euros 300 million, with a floating interest rate and maturing at 12 years, which may be repaid after September 2019.
- On 23 December 2015, ENDESA S.A. signed an uncommitted intercompany credit facility with ENEL Finance International N.V., for Euros 1,500 million and maturing on 31 December 2016. The cost of borrowing applied to these facilities relates to the issuance costs of ENEL commercial paper plus a margin of 6 basis points, and, in cases where such a benchmark is not available, to the ENEL 1-year curve yield adjusted by a defined formula up to the specific maturity date of the required loan. The amount drawn on this facility at 31 December 2015 totalled Euros 200 million.

ENDESA has also maintained its programme of short-term debt issues on international markets, with an outstanding figure of Euros 117 million at 31 December 2015.

Lastly, when assessing net debt in 2015, it must be borne in mind that on 2 January 2015, ENDESA paid shareholders an interim dividend against 2014 income of Euros 0.38 per share (gross), implying a payout of Euros 402 million, and a final dividend against 2014 income on 1 July 2015 for the same amount.

Liquidity.

ENDESA had liquidity of Euros 3,533 million at 31 December 2015, sufficient to meet its total debt repayments over the next 29 months. This amount includes Euros 346 million in cash and cash equivalents and Euros 3,187 million in undrawn and unconditionally available line of credit, of which Euros 1,000 million correspond to credit lines with ENEL Finance International, N.V.

"Cash and cash equivalents" are highly liquid and there is no risk of a change in their value, they mature within 3 months from their contract date and earn interest at market rates for this type of deposit.

There are no restrictions for material amounts on the availability of cash and cash equivalents. Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 13 and 14.1.13 to the consolidated financial statements for the year ended 31 December 2015.

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 2015 and 2014 are as follows:

Million Euros

	Leverage ratio	
	31 December 2015	31 December 2014
Net financial debt:	4,323	5,420
Non-current interest-bearing loans and borrowings	4,680	6,083
Current interest-bearing loans and borrowings	-	1
Cash and cash equivalents	(346)	(648)
Derivatives recognised as financial assets	(11)	(16)
Equity:	9,039	8,575
Of the Parent	9,036	8,576
Of non-controlling interests	3	(1)
Leverage ratio (%)	47.8	63.2

(*) Net financial debt / Equity.

The Company's directors consider that the current leverage ratio enables the optimisation of capital costs, maintaining a high level of solvency. 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.

Capital Management information is included in Note 14.1.11 of the Notes to the Consolidated Financial Statements for the financial year ended 31 December 2015.

4.3. Credit Rating Management.

The main highlights in the fixed income market in 2015, were as follows:

- In January, the ECB announced its asset purchase programme, which had the dual aim of avoiding deflation and reviving economic activity through increased liquidity. The ECB monetary policy meeting approved the programme on 22 January 2015 and which came into effect in March of that year, involves the monthly purchase of Euros 60,000 million in public and private assets until the end of September 2016. Bond buying was limited to the secondary market and instruments with maturities

between 2 and 30 years, with returns at least equal to that offered by the ECB's deposit facility rate, then fixed at -0.2% (negative).

- At its December 2015 meeting, the ECB reduced the deposit facility rate to -0.3% (negative), with the aim of stimulating lending and fuelling inflation- and announced an extension in its asset purchase programme until March 2017, or beyond if necessary.
- On 17 December 2015, the US Federal Reserve (FED) announced an increase in interest rates of a quarter point, to 0.5%, thereby putting an end to a prolonged period of monetary stimulus.

All of the above factors help to explain the performance of the European fixed income market in 2015, a year characterised by extreme volatility.

Although 10-year bond yields of the major European countries ended the year close to the same levels as at the start, there was a great deal of volatility in the government bond market. The lowest returns on 10-year bonds were seen in March 2015, which in the case of the Spain government bond was 1.05%, whilst the German Bund hit 0.06%. Just 3 months later, yields peaked for the year, with the Spain sovereign bond reaching 2.5% and its German counterpart 1.1%. In addition, and backed by the ECB's asset purchase programme, many tranches of the government bond curve offered negative returns over much of the year.

Within a strictly domestic scenario, the Spanish bond saw its credit rating upgraded by Standard & Poor's from "BBB" to "BBB+", maintaining its stable outlook. Among other motives, the rating agency justified this improvement by the positive effects of labour market reform and easier financial conditions.

The Spanish electricity industry in 2015, was characterised by an improvement in fundamentals, with demand for electricity growing for the first time in the last 4 years. In addition to an increase in demand, the Spanish electricity industry also saw a consolidation in tariff sufficiency, as a result of the regulatory reforms initiated in previous years.

In the case of ENDESA, both Standard & Poor's and Moody's improved their credit rating outlooks. Specifically, Standard & Poor's raised its outlook from "stable" to "positive" keeping its long-term rating unchanged at "BBB", whilst Moody's raised its outlook from "negative" to "stable", keeping its long-term rating at "Baa2". Standard & Poor's based its improved outlook on the normalisation of the regulatory scenario in Spain and the improvement in the financial ratios of the parent company ENDESA (ENEL). Moody's gave its reasons for a raised outlook, as the improved macroeconomic and regulatory environment in Spain.

Developments in ENDESA's credit ratings were as follows:

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

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

At year-end 2015 ENDESA's credit rating was "investment grade" according to all rating agencies. It should be noted that ENDESA's credit rating is always limited by that of its Parent, ENEL, in accordance with the methods used by the rating agencies.

ENDESA proposes to maintain its investment grade credit rating to be able to efficiently access money markets and products on the banking market, and to obtain preferential terms from its main suppliers. At any rate, the rating assigned at 31 December 2015, by the agencies would enable ENDESA to tap financial markets on reasonable terms if need be.

4.4. Cash Flows

At 31 December 2015, cash and cash equivalents stood at Euros 346 million, a reduction of Euros 302 million (-46.6%) compared to the figure at 31 December 2014.

At 31 December 2015 and 2014, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Million Euros

Statement of Cash Flows	31 December 2015	31 December 2014		
	TOTAL	Continuing operations	Discontinued Operations (*)	TOTAL
Net cash flows from operating activities	2,656	2,869	845	3,714
Net cash flows used in investing activities	(773)	1,114	6,241	7,355
Net cash flows used in financing activities	(2,185)	(13,657)	(901)	(14,558)

(1) Relating to the Latin America business prior to its disposal.

In 2015, cash from operating activities was sufficient to finance the investments needed to develop the business and pay Euros 805 million dividend, with net financial debt also being reduced by Euros 1,078 million.

Cash flow from operating activities.

Net cash flows from operating activities in 2015 amounted to Euros 2,656 million, compared to Euros 3,714 million in 2014, the latter included net cash flows of Euros 845 million, generated by the Latin America business until its disposal.

In 2015, net cash flows from operating activities, including net cash flows from dividends received, amounted to Euros 17 million; collection and payment of interest amounted to Euros 42 million and Euros 188 million, respectively, (versus Euros 27 million, Euros 280 million and Euros 593 million, respectively, in 2014).

Net cash flows from operating activities include a reduction in working capital of Euros 396 million in 2015, and an increase in working capital of Euros 1,228 million in 2014.

At 31 December 2015 and 2014 working capital comprised the following items:

Million Euros

	31 December 2015	31 December 2014
Current assets (*)	4,633	5,536
Inventories	1,262	1,247
Trade and other receivables	2,977	3,071
Current financial assets	353	1,210
Non-current assets held for sale	41	8
Current liabilities (**)	5,871	6,405
Current provisions	638	544
Trade Payables and Other Current Liabilities	5,233	5,861

(*) 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.

The evolution in working capital in 2015, reflects, mainly, the reduction in receivables associated with compensation to Non-Mainland Territories ("TNP") (Euros 570 million) (see Section 3 Regulatory Framework, of this Consolidated Management Report), and the reduction of the Current Income Tax liability for Euros 379 million.

Net cash used in investing activities.

In 2015 net cash flows from investing activities amounted to Euros 773 million (negative) versus the Euros 7,355 million (positive) of 2014.

Net cash flows used for the purchase of property, plant and equipment amounted to Euros 746 million in 2015 and Euros 1,681 million in 2014 (see Section 4.5 Investments, of this Consolidated Management Report).

Net cash flows arising from gaining or losing control of Group companies, are classified as arising from investing activities. In 2014, net cash flows from investing activities included the net receivable of Euros 6,358 million from the disposal of the Latin American business (see Section 2.3 Analysis of Results, of this Consolidated Management Report).

Net cash used in financing activities.

In 2015 net cash flows used in financing activities amounted to Euros 2,185 million (Euros 14.558 million in 2014).

It is ENDESA's policy to record cash outflows deriving from dividend payments as financing activities. The net cash flows allocated to financing activities included in 2015, a payment of Euros 805 million for this item, along with a fall in net financial debt of Euros 1,380 million (see Section 4.1 Financial management and 13.2 Dividend policy, of this Consolidated Management Report).

In 2014, net cash flows allocated to financing activities included the Euros 16,686 million for dividend payments and an increase in net financial debt of Euros 2,128 million.

At ENDESA, S.A.'s Extraordinary General Shareholders' Meeting on 21 October 2014, it was agreed to pay an extraordinary dividend in cash charged to reserves of Euros 7.795 (gross) per share, which gave rise to a total pay-out of Euros 8,253 million on 29 October 2014. On 7 October 2014, ENDESA, S.A.'s Board of Directors approved the payment of an interim dividend out of 2014 income of Euros 6 (gross) per share, with the purpose of optimising its financial structure, which gave rise to a total pay-out of Euros 6,353 million on 29 October 2014, and which was financed, in part, through a credit facility contracted with ENEL Finance International, N.V. (see Section 4.1 Financial management of this Consolidated Management Report).

4.5. Investments

In 2015 gross investment by ENDESA totalled Euros 1,084 million (Euros 1,155 million in 2014), of which Euros 1,025 million related to capex, and investments in intangible assets and investment property, and the remaining Euros 59 million to financial investments, as follows:

Million Euros

Gross investment	2015	2014 (*)	% chg
Generation and supply	328	307	6.8
Distribution	585	619	(5.5)
Other	2	2	-
TOTAL CAPEX	915	928	(1.4)
Generation and supply	47	39	20.5
Distribution	37	27	37.0
Other	26	33	(21.2)
TOTAL INTANGIBLE ASSETS	110	99	11.1
FINANCIAL INVESTMENTS	59	128	(53.9)
TOTAL INVESTMENTS	1,084	1,155	(6.1)

Continuing operations

Gross investment in generation in 2015 largely related to plants that were already operating at 31 December 2014, including investments in the Litoral power plant for Euros 59 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. These also included investment for the widespread installation of remote management smart meters and their operating systems.

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

Financial Investments in 2015 corresponds mainly to the contribution of funds of Euros 24 million to Nuclenor, S.A (vs. Euros 34 million in 2014). 2014 included financing granted to Elcogas, S.A. of Euros 51 million, mainly to enable the company to pay its bank borrowings guaranteed by shareholders.

On 01 November 2015, ENDESA, S.A. signed an agreement with Galp Energía España, S.A. and Petrogal, Sucursal en España, to acquire the residential segment of the natural gas supply business in Spain. This impact amounted to Euro 35 million.

During 2014, the Company's gross investment in Latin America, up to the date of its divestment, amounted to Euros 1,088 million, of which Euros 957 million relate to capex on tangible assets, intangible assets and investment property, and Euros 131 million on financial investments.

Capex on tangible assets, investment property and intangible assets information is included in Notes 6, 7 and 8 of the Notes to the Consolidated Financial Statements for the financial year ended 31 December 2015.

4.6. Contractual Obligations and Off-Balance Sheet Operations

Information concerning future purchase commitments is provided in Notes 6, 8 and 11.2 to the consolidated financial statements for the year ended 31 December 2015.

Million Euros

	31 December 2015	31 December 2014
Property, plant and equipment	606	787
Intangible assets	2	3
Other intangible assets	2	3
Financial assets	-	-
Purchases of fuel stocks and Other	26,478	27,977
Purchases of fuel stocks	26,411	27,870
Electricity purchases	-	15
CO ₂ , emission allowances, CERs and ERUs	67	92
TOTAL	27,086	28,767

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

5. Events after the Reporting Period

Information concerning events after the reporting period is provided in Note 38 to the consolidated financial statements for the year ended 31 December 2015.

6. Outlook.

ENDESA's vision regarding the main trends observed in the industry and the markets in which it carries out its activities focuses on the following aspects:

- Improvement of the macroeconomic conditions in Spain and Portugal, which could lead to the recovery of demand for electricity and gas.
- An increasing shift of markets towards an economic and industrial model based on low CO₂ emissions, backed by agreements already reached in the EU setting binding targets for 2030.
- A drive in the electrification of energy demand, resulting from measures increasing its economic viability.
- Regulatory stability, focused on the System's efficiency, which guarantees its financial stability.
- Greater consumer interest in value-added products related to energy, allowing them to meet their needs more efficiently and effectively.

Taking into account these trends, ENDESA's industrial plan is based on four key priorities which are organised around various activities in each business.

1. Taking advantage of the potential of the new regulation
2. Organic growth of the businesses.
3. Improving operating efficiency.
4. An investment plan adapted to the market situation and focused on returns.

Benefitting from the new regulations.

After many years of structural tariff deficit in the Spanish electricity industry, the regulatory measures introduced in the last few years, achieved through efforts backed by both the industry and consumers, have enabled tariff sufficiency to be attained and a stable regulatory framework to exist.

Certain aspects of this regulatory reform, however, are still to be completed, such as investment incentives for domestic coal, or the development of the measures already announced by the regulator to utilise the tariff surplus (see Section 3 Regulatory Framework, of this Consolidated Management Report).

In this respect, ENDESA's action plan centres on promoting measures to benefit customers, which allow costs to be reduced and competition in the Spanish industrial sector and the economy as a whole to be increased.

In the distribution business, with the start of the first regulatory period on 1 January 2016, ENDESA aims to optimise the remuneration of this activity within the new regulatory framework by implementing measures geared towards making additional improvements to operating efficiency and investment and to benefit from the new incentives related to service quality, fraud prevention and loss reduction.

Organic growth of the businesses.

The main initiatives to take place in the distribution business will be:

- Acceleration of the digital meter installation programme, which will serve as the basis for the future development of a digital network.
- Roll out of a quality plan, which will augment the level of network automation, through an increase in the number of remote-controlled units resulting from improvements to the communications network, which enables an improvement in the quality of supply and operating cost savings to be made.
- Integrating the control centres by unifying the systems for greater operating efficiency and improved security.

In the supply business, ENDESA's growth plans are based on the following objectives:

- In Spain, to maintain the electricity customer base and expand that of gas, mainly through selective customer portfolio acquisitions. In addition, the gradual liberalisation of the energy markets, the greater degree of competition and new customer needs, have required a business strategy oriented towards customer value maximisation through a continual expansion of the portfolio of value-added products and services (VAPS).
- In Portugal, to increase market share in the residential electricity business and establish a major presence in the gas market.
- In France, to have a greater presence in the residential gas market.

Improving operating efficiency.

ENDESA is always focused on cost efficiency in all of its activities, leveraging its cumulative experience with regard to the plans implemented and continually seeking new areas of savings.

In the generating business, cost efficiency will be promoted through: (i) the interchange of best practices in all technologies; (ii) in nuclear power plants, by preparing them for long-term use; (iii) in hydroelectric power plants, through an ongoing improvement programme; (iv) in coal-fired plants, by renegotiating contracts, optimising the fuel mix and improving logistics, and (v) in combined cycle (CCGT) plants, by virtual hibernation.

In the distribution business, potential savings will come from a more flexible organisational structure, based on simpler processes, and investment in innovative efficiency-oriented technologies.

In the supply business, it is expected that cost efficiency measures will occur in the provision of services with the roll out of digitalisation processes and actions designed to improve efficiency with regard to commercial service and back office activities.

An investment plan adapted to the market situation and focused on returns.

The industrial plan approved by the Board of Directors of ENDESA, S.A., on 10 November 2015, includes an investment target of Euros 4,400 million in the period 2015–2019, broken down as follows:

- 32% of this investment is earmarked for the mainland generation business, with selective environmental investments in imported coal-fired plants to comply with EU emissions legislation. Some 12% of this investment is planned for the Non-mainland territories ("TNP") generation business, fundamentally in environmental investments and, to a lesser extent, in selective capacity replacement.
- The distribution business will receive 46% of this investment, in areas such as the provision of smart meters, the development of the quality plan to expand grid-automation systems and the integration of different control rooms.
- The remaining 12% of this investment will go to the supply business, chiefly to value-added products and services (VAPS).

Notwithstanding the foregoing, the forward-looking information should not be considered as a guarantee of future performance of the Company in the sense that such plans and forecasts are subject to risks and uncertainties which imply that the future performance of ENDESA may not coincide with the initially planned (see Section 7 Main Risks and Uncertainties in connection with ENDESA's business, in this Consolidated Management Report).

7. Main risks and uncertainties in connection with ENDESA's business.

7.1. Risk control and management policy.

In order to adapt to Law 31/2014, of 3 December 2014, amending the Corporate Enterprises Act to improve corporate governance and the Code of Good Governance of listed companies published by the Spanish Securities Market Commission (CNMV) in February 2015, on 15 June 2015 the Board of Directors of ENDESA, S.A. approved the ENDESA Risk Management and Control Policy (see Appendix I: Annual Corporate Governance Report).

Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors to identify precisely the acceptable risk level, with the aim of maximising Company profitability, maintain or increase its equity above certain levels and prevent future events from undermining the Company's profitability targets.

The Risk Management and Control Policy defines ENDESA's risk control system as being an inter-linked network of legislation, processes, controls and IT systems, in which global risk is defined as the risk resulting from consolidation of all risks to which it is exposed, taking into account the mitigating effects between the various risk exposures and risk categories, enables the risk exposure of the Group's business areas and units to be consolidated and evaluated, and the corresponding management information to be drawn up for decision-making on risk and appropriate use of capital.

The body responsible for implementing the Risk Management and Control Policy is the ENDESA Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A. It is made up of the heads of each business line and corporate area and has been given the following duties:

- Regularly provide the ENDESA, S.A. Board of Directors with an integrated view of current and foreseeable risk exposure.
- Ensure that senior management participates in strategic risk management and control decisions.
- Guarantee the coordination between the risk management units and those units responsible for their control, and compliance with the Risk Management and Control Policy and its associated internal procedures.
- Ensure the correct working of the risk control and management systems and, in particular, that they identify, manage, and adequately quantify all major risks.
- Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.
- Ensure that the risk control and management systems adequately mitigate risks within the Risk Management and Control Policy framework.

The general guidelines for the Risk Management and Control Policy are developed and supplemented by other corporate and specific risk policies for each business line, as well as the limits established for optimum risk management.

The risk management and control model is based partly on the ongoing study of the risk profile, current best practices in the electricity sector or benchmark practices in risk management, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk assumed is proportional to the resources required to operate the businesses, optimising their risk-return ratio, as determined by the Board of ENDESA, S.A.

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred and its aim is to adequately control and manage those risks:

- Identification: the purpose of identifying risks is to maintain a prioritised and updated repository of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.
- Measurement: the purpose of measuring parameters that allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.
- Control: the purpose of risk control is to guarantee that the risks assumed by ENDESA are appropriate to the objectives set, ultimately, by the ENDESA, S.A. Board of Directors.
- Management: the purpose of risk management is to implement actions aimed at adjusting risk levels at each level of ENDESA to the set risk tolerance and predisposition.

Information regarding ENDESA's risk management and the use of derivative financial instruments is provided in Notes 18.3 and 19 to the consolidated financial statements for the year ended 31 December 2015.

7.2. Main risks and uncertainties.

ENDESA's activities are carried out in an environment where outside factors may affect the performance of its operations and its earnings. The main risks to which ENDESA's operations are exposed are as follows:

7.2.1. Business and sector-related risks.

ENDESA's activities are subject to extensive regulation, and regulatory changes could have an adverse impact on its business activities, results, financial position and cash flows

ENDESA's subsidiaries are subject to broad regulations on tariffs and on other aspects of their activities in Spain and Portugal, regulations which, in many ways, determine the manner in which ENDESA carries out its business and the revenue it receives from its products and services.

ENDESA is subject to a complex group of laws and other regulations applied by both public and private agencies, which include, in the case of Spain, the Spanish Markets and Competition Commission (CNMC). The introduction of new legislation or standards, or the amendment of those already in effect could have a negative impact on ENDESA's business, results, financial situation and cash flows.

Electricity Industry Law 24/2013, of 26 December 2013, which substitutes Law 54/1997, of 27 November 1997, in order to, among other concerns, ensure the financial stability of the Spanish electricity industry, establishes that beginning in 2014 the annual revenue imbalances will be restricted to a maximum of 2% (or 5% cumulatively for the imbalance of the current year and previous years) of the total revenue generated by the electricity system. These imbalances will be financed by the electricity operators that participate in the electricity system's settlement process in proportion to the revenue that each operator receives from the aforementioned process for their respective electric system activities. In the event that the imbalance exceeds the 2% annual limit or the 5% cumulative limit, the fees and charges applicable will be revised, where appropriate. If, on the other hand, the imbalances are within the aforementioned limits, the operators which participate in the settlement process will have the right to recover their proportionate share of the financing of the imbalance in the following 5 years at a market interest rate which will be established by ministerial order. The final settlement for 2014, approved by the CNMC resulted in surplus income of Euros 550 million. As described in Note 4 to the consolidated financial statements for the year ended 31 December 2015, there was a timing mismatch in 2015, so that, based on the estimates by the Ministry of Industry, Energy and Tourism, the final settlement for this year will not result in any imbalance. In view of the foregoing, there is no guarantee that the measures and proposals introduced by the Spanish government to avoid or limit future deficits are going to function or continue to function as expected, or that they will not be changed or repealed. There is also no guarantee that a Spanish electricity company such as ENDESA will not incur additional costs with respect to the deficit or that it will be able to recover the existing deficit or any other deficit generated in the future. Any adjustments to the aforementioned regulation or interpretation of this regulation by ENDESA could adversely affect ENDESA's business activities, results, financial position and cash flows.

In the past, regulatory changes and the different interpretations thereof by the related authorities have had a substantially adverse effect on ENDESA's business activities, results, financial position and cash flows and the same could occur in the future. Furthermore, they could demand ENDESA make significant investments in order to comply with the new legal requirements. ENDESA cannot predict the effects the new regulatory measures will have on its results or its cash flows and, therefore, these circumstances could adversely affect ENDESA's business activities, results, financial position and cash flows.

Increased deregulation of the electricity industry or the establishment of new targets regarding renewable energy matters in the European Union could lead to greater competition and a drop in prices

Both the deregulation of the electricity industry in the European Union and the establishment of targets related to renewable energies, such as those established by Directive 2009/28/EC of the European Parliament and of the Council, of 23 April, on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, which includes a series of mandatory targets for member states consisting of reaching, by 2020, consumption from renewable sources of at least 20% of total energy consumption in the European Union, have increased competition, due to new participants entering community electricity markets, including the Spanish and Portuguese markets, and an increase in energy from renewable sources.

The deregulation of the European Union's electricity industry has also led to a decline in the price of electricity in certain market segments due to the entrance of new competitors and cross-border energy suppliers. Similarly, the establishment of mandatory targets related to renewable energies has led new participants to enter the market. Furthermore, the consolidation of European exchanges of electricity has promoted greater market liquidity.

This means that ENDESA operates in markets which are more competitive and the level of competition is expected to increase. If ENDESA cannot properly adapt and manage this competitive environment, if the deregulation of the industry were to increase or if additional targets are introduced with respect to renewable energies, ENDESA's business activities, financial position, operating results or cash flows could be adversely affected.

ENDESA's activities are subject to wide-reaching environmental regulations and its inability to comply with current environmental regulations or requirements or any changes to the environmental regulations or requirements applicable could adversely affect its business activities, results, financial position and cash flows

ENDESA is subject to environmental regulations which affect both the normal course of its operations, as well as its long-term operations, leading to increased risks and costs. This regulatory framework requires licences, permits and other administrative authorisations be obtained in advance, as well as fulfilment of all the requirements provided for in such licences, permits and regulations. As in any regulated company, ENDESA cannot guarantee that:

- The laws or regulation will not be amended or interpreted in such a way as to increase the expenses necessary to comply with such laws or as to affect ENDESA's operations, facilities or plants;
- Public opposition will not lead to delays or changes in the projects that are proposed; and
- The authorities will grant the environmental permits required to develop new projects.

In addition, ENDESA is exposed to environmental risks inherent to its business, including those risks relating to the management of the waste, spills and emissions of the electricity production facilities, particularly nuclear power plants. ENDESA may be held responsible for environmental damages, for harm to employees or third parties, or for other types of damages associated with its energy generation, supply and distribution facilities, as well as coal extraction and port terminal activities.

ENDESA cannot guarantee that it will be able to comply with the requirements imposed or that it will be able to avoid fines, administrative or other sanctions, or any other penalties and expenses related to compliance matters, including those related to the management of waste, spills and emissions from the electricity production units. Failure to comply with this regulation may give rise to significant liabilities, as well as fines, damages, sanctions and expenses, including, where applicable, facility closures. Government authorities may also impose charges or taxes on the parties responsible in order to guarantee obligations are repaid. In the event ENDESA were accused of failing to comply with environmental regulations, its business activities, results, financial position and cash flows could be affected adversely.

In this connection, ENDESA has taken out the following insurance policies:

- An environmental liability insurance policy which covers up to a maximum of Euros 100 million, claims arising from contamination or other damages to third parties or their property.
- A third-party liability insurance policy which covers claims relating to damage to third parties or their property up to a maximum of Euros 200 million and an additional Euros 300 million for hydroelectric plants.
- In relation to risks arising from operating nuclear power plants, the storage and handling of low-level radioactive materials and the eventual dismantling of its nuclear power plants, an insurance policy up to Euros 700 million to cover any liabilities related to nuclear power plants up to the liability limit established by Spanish legislation.

The nuclear power plants are also insured against damage to their installations (including stocks of fuel) and machinery breakdowns, with maximum coverage of USD 1,500 million (approximately Euros 1,380 million) for each generator group.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May 2011, on civil liability for nuclear damages or damages produced by radioactive materials, which raises operator liability to Euros 1,200 million and allows coverage of this liability to be ensured in several ways. The entry into force of

this regulation is in turn subject to entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention), which, at the date on which this consolidated management report was drawn up, was only pending ratification by some European Union member states.

However, it is possible that ENDESA may be the object of claims for environmental damages or nuclear accidents for amounts greater than the cover of the respective insurance policies. In particular, these liability limits have not been evaluated in the event of nuclear accidents and, therefore, there is a risk that they could give rise to claims against ENDESA for amounts greater than the limits covered by the insurance policies taken out. If ENDESA were to be held liable for damages generated by its facilities for amounts greater than its insurance policy cover or for damages which exceed the scope of the insurance policy's cover, its business activities, financial position or operating results could be adversely affected.

ENDESA is subject to compliance with the legislation and regulations on emissions of pollutants and on the storage and treatments of waste from fuel from nuclear power plants. Furthermore, it is possible that the Company will be subject to even stricter environmental regulations in the future. In the past, the approval of new regulations has required, and could require in the future, significant capital investment expenditures in order to comply with legal requirements. ENDESA cannot predict the increase in capital investments or the increase in operating costs or other expenses it may have to incur in order to comply with all environmental requirements and regulations. Nor can it predict if the aforementioned costs may be transferred to third parties. Thus, the costs associated with compliance with the regulations applicable could adversely affect ENDESA's business activities, results, financial position and cash flows.

Past or future infringements of competition and antitrust laws could adversely affect ENDESA's business activities, results, financial position and cash flows

ENDESA is subject to competition and antitrust laws in the markets in which it operates. Infringements of and failure to comply with the aforementioned laws and other applicable regulations, especially in Spain, ENDESA's main market, could give rise to legal actions against ENDESA.

ENDESA has been, is and could be the object of legal investigations and proceedings regarding competition and antitrust matters. Investigations regarding the infringement of competition and antitrust laws usually last several years and may be subject to strict rules which prevent the disclosure of information. Furthermore, infringements of these regulations may give rise to substantial fines and other types of sanctions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA's growth strategy has traditionally included, and continues to include, purchase transactions which are subject to various competition and antitrust laws. These regulations may affect ENDESA's ability to carry out strategic transactions.

ENDESA's business is largely dependent on the constant supply of large amounts of fuel to generate electricity; on the supply of electricity and natural gas used for its own consumption and supply; and on the supply of other commodities, the prices of which are subject to market forces which may affect the price and the amount of energy sold by ENDESA

ENDESA is exposed to market price and availability risks in relation to the purchase of the fuel (including gas and coal) used to generate electricity, for procuring gas and supply activities.

In this connection, fuel price fluctuations in international markets may affect the contribution margin. The prices of the offers of the various technologies are therefore established through the internationalisation, among others, of fuel CO₂ quoted prices. Therefore, in the event fuel prices fluctuate, generation technologies will attempt to reflect such fluctuations in their wholesale market prices. At the same time, the order of economic merit of each generation technology when establishing the market price, will depend on its relative costs, which include those of fuel and CO₂ emission rights, among others.

Similarly, the price of oil influences the price of electricity through the natural gas supply contracts, the majority of which are indexed to oil.

The Company is also exposed to the prices of CO₂ emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs). The price of CO₂ emission rights influences the cost of production at the coal-fired and combined cycle plants.

ENDESA has signed certain natural gas supply contracts which include binding "take or pay" clauses which compel it to either acquire the fuel it has agreed to contractually or to pay if it does not acquire such fuel. The terms of these contracts have been established based on certain assumptions regarding future electricity and gas demand. Any significant deviation from the assumptions used could give rise to an obligation to purchase more fuel than necessary or to sell excess fuel on the market at current prices. Over the last 3 years, ENDESA has managed its supply and demand, considerably expanding its international customer base in order to ensure its purchase commitments are balanced against the volume of its own consumption and customer sales. Furthermore, ENDESA has entered into electricity and natural gas contracts based on certain assumptions regarding future market prices for electricity and natural gas. ENDESA sells more electricity than it generates and, therefore, it is obliged to acquire electricity on the spot market in order to meet its supply obligations.

Any significant deviation when the aforementioned supply contracts are signed could give rise to an obligation to purchase electricity or natural gas at prices which are higher than those included in the contracts. In the event there is a market price adjustment with respect to the estimates made, a deviation in ENDESA's obligations with regard to its fuel needs, or a regulatory change which affects prices as a whole and how they have been established, and if its risk management strategies are inadequate in the face of such changes, ENDESA's business activities, results, financial position and cash flows could be affected adversely.

ENDESA's business could be adversely affected in the event it is unable to sustain its relationships with suppliers, customers and consumer and user rights organisations, or if the entities with which ENDESA maintains these relationships cease to exist

The relationships ENDESA currently maintains with the main industry service suppliers and providers, including Red Eléctrica de España, S.A. (REE), in its capacity as the sole transmission operator of the Spanish electricity system, are essential for the development and growth of its business, and will continue to be so in the future. Furthermore, certain of these relationships are and will continue to be managed by ENEL, S.p.A.

ENDESA's dependence on these relationships could affect its ability to negotiate contracts with these parties under favourable conditions. Although ENDESA's supplier portfolio is sufficiently diverse and it does not have a concentration of suppliers, if any of these relationships is severed or terminated, ENDESA cannot guarantee the replacement of any significant service supplier or provider within an appropriate time frame. If ENDESA is unable to negotiate contracts with its suppliers under favourable terms, if such suppliers are unable to comply with their obligations or if their relationship with ENDESA is severed, and ENDESA is unable to find an appropriate replacement, its business activities, results, financial position and cash flows could be affected adversely.

In the electricity supply business, ENDESA maintains relationships with a large number of customers. Even if ENDESA were to lose individual customers it would not have a significant impact on its business as a whole, the inability to maintain stable relationships with key customers could adversely affect ENDESA's business activities, results, financial position and cash flows.

Furthermore, ENDESA cannot guarantee that it will maintain solid relationships and ongoing communication with consumers and users and with the associations which represent them and, therefore, any change in these relationships could entail negative publicity and a significant loss of customers, which could adversely affect ENDESA's business activities, results, financial position and cash flows.

In Note 19.6 to the consolidated financial statements for the year ended 31 December 2015 gives information on the concentration of customers and suppliers.

ENDESA's activities could be affected by rainfall patterns and climate and weather conditions.

ENDESA depends on the levels of precipitation in the geographical areas where its hydroelectric generation facilities are located. A year with low rainfall leads to a decline in hydroelectric output, in turn increasing the output of thermal power plants (with a greater cost) and, therefore, an increase in the price of electricity and the cost of buying energy. In a wet year, the opposite effects occur.

Therefore, if there are droughts or other circumstances which adversely affect hydroelectric generation, ENDESA's business activities, results, financial position and cash flows could be adversely affected. Likewise, the Company actively manages its production mix when faced with changes in hydrological conditions. For example, in the event hydrological conditions are unfavourable, electricity generation will, to a large extent, come from other types of facilities and ENDESA's operating expenses arising from these activities will increase. ENDESA's inability to manage changes in hydrological conditions could adversely affect its business activities, results, financial position and cash flows.

Weather-related conditions and, in particular, seasons, have a significant impact on electricity demand. Electricity consumption levels reach their peak in summer and winter. The impact seasonal changes have on demand is reflected mainly in residential customer categories (with consumption of less than 50 MWh/year) and small businesses (with consumption between 50 MWh/year and 2 GWh/year). Seasonal changes in demand are attributed to various weather-related factors such as the climate, the amount of natural light, and the use of light, heating and air conditioning. Since ENDESA has high fixed costs, changes in demand due to weather conditions can have a disproportionate effect on the business's profitability.

The impact of seasonal variations on industrial electricity demand (with consumption of over 2 GWh/year) is less pronounced than in domestic and commercial industries, mainly due to the fact that there are various types of industrial activities which, due to their unique nature, have differing seasonal peaks. Furthermore, the effect of climate-related factors is more varied in these industries. Accordingly, ENDESA must make certain projections and estimates regarding climate conditions when negotiating its contracts and a significant divergence in the precipitation levels and other weather conditions envisaged could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is also subject to the risk of fluctuations in global demand.

Likewise, adverse weather conditions could impact the regular supply of energy due to damages to the network, with the resulting interruption in services which could compel ENDESA to compensate its customers due to delays or disruptions in the supply of energy. The occurrence of any of the foregoing circumstances could adversely affect its business activities, results, financial position and cash flows.

ENDESA is exposed to risks associated with the construction of new electricity generation and supply facilities

The construction of power generation and supply facilities can be time-consuming and highly complex. This means that investment needs to be planned well in advance of the estimated start-up date of the facility and, therefore, the Group may need to adapt its decisions to changes in the market conditions. This may entail significant additional costs not originally planned that may affect the return on these types of projects.

In connection with the development of such facilities, ENDESA generally has to obtain the related administrative authorisations and permits, acquire land purchase or lease agreements, sign equipment procurement and construction contracts, operation and maintenance agreements, fuel supply and transport agreements, off-take arrangements and obtain sufficient financing to meet its capital and debt requirements.

Factors that may affect ENDESA's ability to construct new facilities include:

- Delays in obtaining regulatory approvals, including environmental permits;
- Shortages or changes in the price of equipment, materials or labour;
- Opposition from local groups, political groups or other stakeholders;
- Adverse changes in the political environment and environmental regulations;
- Adverse weather conditions, natural catastrophes, accidents and other unforeseen events that could delay the completion of power plants or substations;
- Proper compliance by suppliers with the contracts entered into; and

- Inability to obtain financing under conditions that are satisfactory to ENDESA.

ENDESA's installed capacity is not expected to increase significantly in the short term.

Any of these factors may cause delays in completion or commencement of the Group's construction projects and may increase the cost of planned projects. In addition, if ENDESA is unable to complete these projects, any costs incurred in connection with such projects may not be recoverable.

If ENDESA faces problems related to the development and construction of new facilities, its business activities, results, financial position and cash flows may be adversely affected.

In addition, ENDESA makes investments to maintain and, where necessary, extend the technical life of its electricity power plants. The execution of these investments is dependent on market and regulatory conditions. If the necessary conditions enabling the viability of the plants do not exist, ENDESA may have to cease production at the installation and, where appropriate, and begin the task of dismantling them. These closures would involve a reduction in installed capacity and output that support customer energy sales and, therefore, could adversely affect ENDESA's business activities, results, financial position and cash flows.

7.2.2. Risks associated with the countries in which ENDESA operates.

ENDESA's business could be affected by adverse economic or political conditions in Spain, Portugal, the eurozone and in international markets

Adverse economic conditions could have a negative impact on energy demand and the ability of ENDESA's consumers to fulfil their payment obligations. In times of economic recession, as experienced by Spain and Portugal in recent years, electricity demand usually falls off, adversely affecting the Company's results.

The economic conditions in Spain and Portugal in recent years have adversely affected electricity demand and, therefore, ENDESA's operating results. The Company cannot predict how the economic cycle in Spain, Portugal and the eurozone will evolve in the short term, nor can it predict whether economic conditions will worsen or deteriorate.

If the economic situation in Spain, Portugal or other eurozone economies deteriorates, it could adversely affect energy consumption and, consequently, ENDESA's business activities, financial position, operating results and cash flows would be negatively affected.

In addition, the financial conditions in the international markets represent a challenge for ENDESA's economic situation due to the potential impact on its business of, on the one hand, the growing government debt, declining growth rates and possible downgrading of government bond ratings at the international level – and, in particular, in eurozone countries – and, on the other hand, the new monetary expansion measures expected in the credit market. A change in any of these factors could condition ENDESA's access to capital markets and the conditions under which it obtains financing, consequently affecting its business activities, results, financial position and cash flows.

In addition to any economic problems which could arise at the international level, ENDESA faces a situation of uncertainty at the political level, both European or international, which could adversely affect the Company's economic and financial position.

ENDESA cannot guarantee that the international or eurozone economic situation will not deteriorate, nor that an event of a political nature will not have a significant impact on the markets, thus affecting its economic situation. All of these factors could adversely affect ENDESA's business activities, financial position, operating results and cash flows.

7.2.3. Risks associated with Operations carried out by ENDESA

ENDESA's activities may be affected by operating risks and other significant risks

In the course of ENDESA's business activities, direct or indirect losses could arise from inadequate internal processes, technological failures, human error or certain external events, such as accidents at

facilities, workplace conflicts and natural disasters. These risks and dangers could cause explosions, floods or other circumstances which could cause the total loss of the energy generation and distribution facilities; damages to or the deterioration or destruction of ENDESA's facilities, or even environmental damages; delays in electricity generation and complete disruption of the activity; or could cause personal damages or deaths. The occurrence of any of these circumstances could adversely affect its business activities, results, financial position and cash flows.

The loss of essential workers or ENDESA's inability to recruit, employ and train qualified staff could adversely affect ENDESA's business activities, results, financial position and cash flows

In order for ENDESA to be able to continue to maintain its position in the industry, it must recruit, train and retain the staff necessary who can provide the experience required within the framework of ENDESA's intellectual capital needs. The success of ENDESA's business depends on the continuity of the services provided by Company management and by other key employees with demonstrated experience, reputation and influence in the electricity industry, thanks to establishing beneficial and long-lasting relationships in the market over the years. The qualified labour market is highly competitive and ENDESA may not be able to successfully hire additional qualified staff or to replace outgoing staff with sufficiently qualified or effective employees.

ENDESA's inability to retain or recruit essential staff could adversely affect its business activities, results, financial position and cash flows.

ENDESA's insurance cover and guarantees may not be adequate or may not cover all of the damages

ENDESA's business is exposed to the risks inherent to the markets in which it operates. Despite the fact that ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business – including damages to the Company itself, general civil liability, environmental and nuclear power plant liability – it is possible that insurance cover may not be available on the market under commercially reasonable terms. Likewise, the amounts for which ENDESA is insured may not be sufficient to cover the incurred losses in their entirety.

In the event of a partial or total loss of ENDESA's facilities or other assets, or a disruption to its activities, the funds ENDESA receives from its insurance may not be sufficient to cover the complete repair or replacement of the assets or losses incurred. Furthermore, in the event of a total or partial loss of ENDESA's facilities or other assets, part of the equipment may not be easily replaced, given its high value or its specific nature, or may not be easily or immediately available.

Similarly, the cover of guarantees in relation to the aforementioned equipment or the limits to ENDESA's ability to replace the equipment could disrupt or hinder its operations or significantly delay the course of its ordinary operations. Consequently, all of the above could adversely affect ENDESA's business activities, results, financial position and cash flows.

Likewise, ENDESA's insurance contracts are subject to constant review by its insurers. It is therefore possible that ENDESA may be unable to maintain its insurance contracts under conditions similar to those currently in place in order to meet possible increases to premiums or to covers which become inaccessible. If ENDESA is unable to transfer a possible premium increase to its customers, these additional costs may adversely affect its business activities, results, financial position, and cash flows.

ENDESA manages its activities with information technology that uses the highest security and contingency standards according to the state of the art, such that it guarantees operating efficiencies, as well as the continuity of the businesses, systems and processes which contribute to attaining its corporate objectives

The business aggregates with regard to technical complexity, volume, granularity, functionality and varying situations handled by ENDESA's systems make their uses essential and represent a strategic distinguishing element with respect to industry companies. Specifically, ENDESA's main computer systems handle the following business processes:

- Commercial systems: marketing processes, demand forecasts, profitability, sales, customer service, claim management, hiring and the basic revenue cycle (validation of meter reading, invoicing, collection management and debt processing).
- Technical distribution systems: processes for managing the grid, meter-reading management, handling of new supplies, network planning, field work management, management of meter-reading equipment with advanced remote management and energy management capabilities.
- Economic-financial systems: Company economic management, accounting, financial consolidation and balance sheet processes.

Management of ENDESA's business activity through these systems is key in order to perform its activity efficiently and achieve its corporate objectives. However, the existence of these processes, methodologies, tools and protocols based on international standards and appropriately audited does not imply that ENDESA is exempt from technical incidents which could adversely affect the continuity of ENDESA's business operations, the quality of its contractual relationship with its customers, its results, its financial position and its cash flows.

7.2.4. Financial Risks associated with ENDESA's Business

Note 19 to the consolidated financial statements for the year ended 31 December 2015 lists the risk management and control mechanisms.

ENDESA is exposed to interest rate risk.

Borrowings at floating interest rates are mainly tied to Euribor. Changes in interest rates in relation to debt not covered or insufficiently covered may be adversely affect ENDESA's business activities, results, financial position and cash flows.

debt that is not covered o may adversely affect the business

ENDESA is exposed to foreign currency risk

ENDESA is exposed to foreign currency risk, mainly in relation to the payments it must make in international markets to acquire energy-related commodities, especially natural gas and international coal, where the prices of these commodities are usually denominated in US dollars (USD).

Therefore, this means that the fluctuations in the foreign exchange rate could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA is exposed to credit risk

In its commercial and financial activities, ENDESA is exposed to the risk that its counterparty may be unable to meet all or some of its obligations, both payment obligations arising from goods already delivered and services already rendered, as well as payment obligations related to expected cash flows, in accordance with the financial derivative contracts entered into, cash deposits or financial assets. In particular, ENDESA assumes the risk that the consumer may not be able to fulfil its payment obligations for the supply of energy, including all transmission and distribution costs.

ENDESA cannot guarantee that it will not incur losses as a result of the non-payment of commercial or financial receivables and, therefore, the failure of one or various significant counterparties to fulfil their obligations could adversely affect ENDESA's business activities, results, financial position and cash flows.

ENDESA's business depends on its ability to obtain the funds necessary to refinance its debt and finance its capital expenses

ENDESA is confident that it will be able to generate funds internally (self-financing), access bank financing through long-term credit facilities, access short-term capital markets as a source of liquidity and access the long-term debt market in order to finance its organic growth programme and other capital requirements, including its commitments arising from the on-going maintenance of its current facilities. Furthermore, ENDESA occasionally needs to refinance its existing debt. This debt includes long-term

credit facilities, obtained from both banks as well as companies of the Group headed by ENEL, and financial investments.

If ENDESA is unable to access capital under reasonable conditions, refinance its debt, settle its capital expenses and implement its strategy, the Company could be adversely affected. The capital and turmoil in the capital market, a possible reduction in ENDESA's creditworthiness or possible restrictions on financing conditions imposed on the credit facilities in the event financial ratios deteriorate, could increase the Company's finance costs or adversely affect its ability to access the capital markets.

A lack of financing could force ENDESA to dispose of or sell its assets to offset the liquidity shortfall in order to pay the amounts owed and this sale could occur under circumstances which prevent ENDESA from obtaining the best price for said assets. Therefore, if ENDESA is unable to access financing under acceptable conditions, ENDESA's business activities, results, financial position and cash flows could be adversely affected.

On the other hand, the conditions in which ENDESA accesses the capital markets or other means of financing, whether within the Company or on the credit market, are highly dependent upon the credit rating of the ENEL Group, of which ENDESA is part. ENDESA's capacity to access the markets and financing could therefore be adversely affected, in part, by the credit and financial position of ENEL, to the extent that it could determine the availability of intercompany financing for ENDESA or the conditions under which the Company accesses the capital market

In this connection, the deterioration of ENEL's credit rating and, consequently, that of ENDESA, could limit ENDESA's ability to access the capital markets or any other means of financing (or refinancing) from third parties or increase the cost of these transactions which could adversely affect ENDESA's business activities, results, financial position and cash flows.

7.2.5. Tax Risks

ENDESA is exposed to risks related to taxes and changes in tax regulations

ENDESA could be significantly harmed by changes in the various tax regimes to which it is subject, by international treaties and by administrative regulations or practices, in addition to being affected by changes in tax legislation specific to the electricity industry. ENDESA is particularly vulnerable to such changes in Spain. ENDESA's commercial activities are subject to the tax regulations of the markets in which it operates and, therefore, the Company calculates its tax obligations in accordance with the tax laws, treaties, regulations and requirements imposed by the tax authorities in these markets.

ENDESA's interpretation of the tax regime, treaties and regulations applicable may be deemed incorrect by the tax authorities. Furthermore, the tax laws, regulations or administrative practices and activities could change in the future, and even take effect retroactively. Any change to the tax legislation applicable or to regulations or decisions adopted by the tax authorities could affect ENDESA's tax obligations, entailing fines, extra costs or increases in its obligations which could adversely affect its business activities, outlook, financial position, operating results and cash flows.

ENDESA could be held liable for income tax and value added tax (VAT) charges corresponding to the tax group of which it forms part or has formed part.

Since 2010, ENDESA has filed consolidated tax returns for income tax purposes, as part of consolidated tax group no. 572/10, the parent of which is ENEL, S.p.A. and ENEL Iberoamérica, S.L.U. as the representative entity in Spain. Likewise, since January 2010, ENDESA has formed part of the Spanish consolidated VAT group no. 45/10, the parent of which is also ENEL Iberoamérica, S.L.U. Until 2009, ENDESA filed consolidated tax returns as the Parent under group no. 42/1998 for income tax and under group no. 145/08 for VAT.

In accordance with the regime for filing consolidated tax returns for purposes of income tax and VAT for company groups, all of the Group companies which file consolidated tax returns are jointly responsible for paying the Group's tax charge. This includes certain sanctions arising from failure to comply with specific obligations imposed under the VAT regime for company groups.

As a result of this, ENDESA is jointly responsible for paying the tax charge of the other members of the consolidated tax groups to which it belongs or has belonged for all tax periods still open for review.

The information relating to the tax periods open for review is detailed in Note 30 of the notes to the consolidated financial statements for the year ended 31 December 2015.

Although ENDESA has the right to recourse against the other members of the corresponding group, it could be held jointly liable if any outstanding tax charge were to arise which had not been duly settled by another member of the consolidated tax groups of which ENDESA formed part. Any material tax liability could adversely affect ENDESA's business activities, results, financial position and cash flows.

7.2.6. Other Risks.

The ENEL Group controls the majority of ENDESA's share capital and voting rights and the interests of the ENEL Group could conflict with the interests of ENDESA.

At 31 december 2015, the ENEL Group, through ENEL Iberoamérica, S.L.U. holds 70.101% of ENDESA's share capital and voting rights, giving it the ability to appoint the majority of ENDESA's Board members and, therefore, to control management of the business and its management policies.

In addition, certain of the relationships that ENDESA currently maintains with its principal international suppliers and providers in the sector are, and will continue to be, managed by ENEL, S.p.A.

The ENEL Group's interests may differ from the interests of ENDESA or those of its shareholders. Furthermore, both the ENEL Group and ENDESA compete in the European electricity market. It not possible to ensure that the interests of the ENEL Group will coincide with the interests of ENDESA's other shareholders or that the ENEL Group will act in support of ENDESA's interests.

ENDESA is involved in court and arbitration proceedings

ENDESA is party to various ongoing legal proceedings related to its business activities, including tax, regulatory and antitrust disputes. It is also subject to ongoing or possible tax audits. In general, ENDESA is exposed to third-party claims from all jurisdictions (criminal, civil, commercial, labour and economic-administrative) and in national and international arbitration proceedings.

Although ENDESA considers that the appropriate provisions have been made for any legal contingencies, it has not made provisions for all amounts claimed in each and every one of the proceedings. In particular, it has not made provisions in cases in which it is impossible to quantify the possible negative outcome nor in cases in which the Company considers such negative outcome unlikely. No guarantee can be made that ENDESA has allocated adequate provisions for contingencies, that it will be successful in the proceedings in which it expects a positive outcome, or that an unfavourable decision will not adversely affect ENDESA's business activities, results, financial position and cash flows. Furthermore, the Company cannot ensure that it will not be the object of new legal proceedings in the future which, if the outcome were unfavourable, would not have an adverse affect on its business activities, operating results, financial position or cash flows.

Information on litigation and arbitration is provided in Note 16.3 to the consolidated financial statements for the year ended 31 December 2015.

ENDESA is exposed to the risk of image and reputation

ENDESA is exposed to the opinion and perception projected to different interest groups. This perception could deteriorate as a result of events produced by the Company or third parties over which it has little or no control. Should this occur, this could lead to economic detriment for the Company due, among other factors, to increased requirements on the part of regulators, higher borrowing costs or increased efforts to attract customers.

Although ENDESA actively works to identify and monitor potential reputational events and interest groups affected, and transparency forms part of its communications policy, there is no guarantee that it will not have its image or reputation impaired which, since the outcome would be unfavourable, will have an adverse affect on its business, operating results, financial situation or cash flows.

8. Research, Development and Innovation Activities (R&D+i).

8.1. Context and Objectives of the Research, Development and Innovation Activities (R&D+i)

The energy industry is in the midst of important changes which will intensify in the future due to the growing environmental awareness of governments and customers. The Company is aware that the objectives for reducing emissions and increasing efficiency are necessary, requiring an additional effort on its part in order to achieve them.

According to the European Commission, in order to reach the targets set by the European Council in March 2007 regarding the 20-20-20 goal for 2020, the electrification of European demand must increase to 22% in 2020 and in order to reach the targets set in the 2050 Energy Road Map, aimed at reducing greenhouse gases by 90% in 2050, it must be more than 39% in 2050.

The foregoing will facilitate the transition from the current centralised one-directional energy model, where customers consume energy generated at large plants and distributed through large one-directional infrastructures, towards a more decentralised multi-directional model where customers can generate their own energy and exchange it with other players through multi-directional infrastructures.

In this context, the goal of ENDESA's research, development and innovation activities is to create a new, more sustainable energy model based on efficient electrification of energy demand thanks to the development, testing and application of new technologies and new business models.

ENDESA's R&D and innovation activities, are developed in coordination with the rest of the ENEL Group, with joint research activities being undertaken in the areas of shared interest and in the markets in which both operate.

8.2 Investment in research, development and innovation activities (R&D+i).

The amount of gross direct investment in R&D+i in 2015 amounted to Euros 22 million, distributed as follows:

Million Euros

Gross Direct R&D+i investment	2015	2014
Generation and supply	19	14
Distribution	3	4
Business in Spain and Portugal	22	18
Business in Latin America ⁽¹⁾	-	17
TOTAL	22	35
Gross Direct R&D+i investment / EBITDA % ⁽²⁾	0.7	0.6
Gross Direct R&D+i investment / EBIT % ⁽²⁾	1.4	1.2

(2) Financial information relating to the Latin America business prior to its disposal.

(3) Corresponding to Continuing Operations.

8.3 Main Areas of Activity

ENDESA's research, development and innovation activities span all business areas. The following details the areas of activity, their future guidelines, and certain of the most relevant projects currently under way.

Electricity Generation

Guidelines: reduce pollutants, increase efficiency and improve flexibility of conventional plants in order to optimise operation.

The main areas of activity are:

- Reduction of emissions:
 - “Innovaalga”: recovery of CO₂ from combustion gases from the Litoral thermal power plant (Almería), and the use of microalgae and recovery of the biomass generated to obtain high-value proteins and sustainable fertilisers.
 - “O2GEN”: project aimed at optimising carbon (CO₂), capture technology OxyCFB, through the use of higher ratios of O₂/CO₂, in smaller boilers and with lower costs.
 - “ReCaL” and “CaO₂” projects: optimise the process of capturing CO₂ using carbonation calcination cycles with experimentation in the La Pereda 1.7 MWt pilot plant.
 - “GTNOx”: evaluation and validation of the injection of large amounts of water into gas turbines with liquid fuel, so as to reduce the nitrogen oxide (NOx) emissions in compliance with the future limits set by the Industrial Emissions Directive.
 - “ASHREACT”: a project aimed at recovering ash from the carbon combustion process at thermal power plants, through the use of an alkaline pre-activation process, to obtain substitutes for Portland cement products.
 - “Lessox”: study strategies to increase flexibility of the thermal groups at the Compostilla thermal production unit to consume a lower-cost fuel mix, ensuring that the lower emission limits required by BREF of SO₂ < 100 mg/Nm³ are achieved by improvements of the desulphurisation plant.
 - “Orpao”: improvements of the desulphurisation plants by optimising the intermediate processes that will allow the reduction of operating costs, better quality gypsum and the reduction of liquid effluent -improving quality and the environment-.
 - “Geaco”: application of geophysical techniques for the characterisation of deep geological storage for carbon dioxide (CO₂).
- Increase the efficiency and flexibility of the power plants:
 - “Cokefeed”: study strategies to increase flexibility with regard to fuels and to improve, in environmental terms, the thermal groups with tangential boilers through the consumption of petroleum coke as an alternative fuel.
 - “Oncord”: evaluate the possible degradation and reduction of the useful life of the boilers' tubular materials and high-temperature components due to the use of different fuels.
 - “Coal Stockpiling”: roll out of a project to avoid energy loss at coal facilities as a consequence of natural oxidation and spontaneous combustion processes, or coal particles being blown away by the wind.
 - “Telesivi”: development of an online control system, using artificial vision algorithms, based on cameras and various sensors, to monitor and optimise the operation of hydroelectric power plants.
 - “Optical”: implementation at the Teruel and Litoral thermal (Almería) plants of an adaptive predictive expert control system to optimise steam superheat temperature control and reduce thermal fatigue damage.
 - “Canem”: installation of a water in fuel emulsifier system to reduce nitrogen oxide (NOx) and particulate matter emissions from fuel oil boilers.
 - “Colifo”: system to monitor the remaining life of the principal components of the boiler, with the aim of improving the operation of coal-fired thermal units.

Intelligent distribution or smart grids.

Guidelines: be the leader in using communication technologies in the distribution grid.

The main areas of activity are:

- Remote management project: roll out of an automatic remote electricity supply control and management system for domestic customers (less than 15 kW). This system, the first of its kind in Spain, will be installed in the homes of more than 11 million of the Company's customers (2010-2018), to replace conventional electricity meters, in compliance with prevailing Spanish legislation (Ministerial Order IET/290/2012, of 16 February), which will help boost efficiency and sustainability of the electricity network.
- “Smart grids” / “Smarcities” projects: these aim to ensure that the grids are able to offer a rapid response to users' needs.
 - Advanced monitoring and control of low and medium voltage electricity distribution grids: it is planned to move from simple data capture to the management and use of information that helps decision making and the use of “smart grids” to optimise network performance, based on new technologies (hardware and software) such as new sensors and power electronics devices installed in the grids and new information and communication technologies.
 - Grid automation: the roll out of new sensors and the expansion of the capacity of current remote control systems to make them more robust and to provide more flexible operation of the grid and quicker subsequent deployment, along with the introduction of an innovative solution to automated smart distribution to complement the existing centralised remote control systems.
 - Management of renewables in autonomous microgrids: this project aims to develop technologies to prepare for the imminent penetration of photovoltaic solar power in consumption points and optimise the distribution grid operation.
- “Smartnet” project: the objective of this project is to analyse the capacity of the Distribution System Operator (DSO) to provide auxiliary services to the Transmission System Operator (TSO), with the “aggregator” figure being used.

Energy storage.

Guidelines: test the latest technologies in the field, define performance, identify areas of improvement and define operating processes, both on a large and small scale.

The main areas of activity are:

- Large-scale energy storage:
 - “Store” Project: testing in the Canary Islands of 3 plants with different energy storage technologies.
 - “El Hierro” Project: development of a hydro-wind power plant with pumping.
- Small-scale energy storage:
 - Second life for electric vehicle batteries.
 - Impact of storage on weak grids and stabilisation of low-voltage networks.
 - Impact of storage on customers.

Electric vehicles.

Guidelines: ENDESA is still firmly committed to developing e-mobility technologies in the broadest sense, and plays an active role in this field in order to position itself as a leader in the e-mobility industry and to

develop and test on a real scale recharge systems, which allow the energy stored to be used and are large scale examples aimed at promoting e-mobility in real environments.

The main areas of activity are:

- Conventional recharge systems in Spain: in the last three years, ENDESA has made a total of 853 conventional recharge points available to domestic and institutional customers.
- Conductive rapid charging:
 - “Ultrafast”: the roll out of an ultra-rapid charger (up to 500 kW) service available for all heavy electric vehicles in Barcelona; testing the technology and operating systems associated with the first fleet of 18-metre buses.
- Inductive charge:
 - Victoria: to develop Spanish technology for dynamic induction charging for buses.
- Take advantage of energy stored in electric vehicles:
 - “Vehicle to Grid - V2G”: to develop systems which allow vehicles to be charged as well as drained.
- Large-scale examples:
 - “Zem2all - Zero Emissions Mobility to All”: developed in Malaga together with the Japanese government. 23 rapid chargers have been rolled out, 6 Vehicle to Grid - V2G chargers, 1 control and information centre and up to 200 electric cars, connected with machine-to-machine technology.
 - “ZeUS”: developed as part of a European consortium to demonstrate the economic, environmental and social viability of electric urban buses.

New products and services.

Guidelines: develop and test new energy efficiency services linked to communication technology applications, generation in consumption, storage, air-conditioning and lighting.

The main areas of activity are:

- “Infoenergía”: ENDESA' new online tool, providing energy data and advice on domestic electricity consumption for all its clients.
- “Hydra”: pilot project on hybrid heating and refrigeration solutions in the hotel sector.
- “Flexiciency”: large-scale demonstration of new services for all agents in the European electricity market based on the access to almost-real-time data from meters.

Occupational safety.

Guidelines: develop and test technologies which contribute to the objective of reducing the accident rate.

The main areas of activity are:

- Development of a personal voltage detection device: this is a device attached to the helmet of the operative which detects voltages before entering into a dangerous area, the range of the device is medium-voltage: 6kV to 66kV.
- Implementation of the application “APP5RO” to verify compliance with the 5 golden rules for working with electricity.

- The “One Safety” programme, an occupational risk prevention programme based on behavioural analysis, and the roll out of an IT tool specifically to aid the work of inspectors.

8.4 Innovation model.

ENDESA has an open innovation model and was the first Spanish electricity company to obtain UNE 166200 certification for this model.

ENDESA's research, development and innovation activities (R+D+i) are carried out in close collaboration and cooperation with the rest of the ENEL Group, taking advantage both of the Group's research centres and the best research centres, universities, suppliers and emerging national and international companies.

The following is a summary of ENDESA's innovation model:

- Identification of technological challenges: in close collaboration with the businesses and after a trend analysis.
- Generation of ideas: in order to provide solutions to challenges. On two levels:
 - Internal ideas:
 - (i) “Eidos Market”, a crowdsourcing platform to take advantage of the collective intelligence of all ENDESA's employees.
 - (ii) Internal network of innovation managers who combine their regular business duties with promoting innovation in their own field.
 - (iii) “ENDESA Datathon”, to develop new proposals for the Spanish market through the analysis of the huge dataset provided to participants with simulated information on hourly usage.
 - (iv) “ENDESA Hackathon”, event in which 40 software developers, programmers and designers took part in search of mobile solutions to change the future of energy.
 - External ideas: With channels open to:
 - (i) Entrepreneurs:
 - Incense: ENDESA, together with ENEL and two other European partners, won a European tender to finance start-ups in the communication technologies industry focused on energy efficiency.
 - (ii) Universities and research centres: Universities and research centres: ENDESA has an active relationship with the academic world through involvement and collaboration agreements with 14 universities and 10 of the most prestigious research centres.
 - (iii) Associations and working groups: it collaborates with various technology platforms and working groups promoted by various administrations.
 - (iv) Suppliers: ENDESA works actively with its suppliers to incorporate and develop new technological solutions.
 - (v) Other industries: ENDESA participates in innovation forums with other industries.
- Launch of projects: once assessed by ENDESA's experts (according to a common methodology based on the initiative's creation of value) and, if the evaluation is positive, the ideas are converted into projects which enter into a structured management and monitoring process.

- Capturing value: once the projects are completed, and if successful, they move on to production in order to create value for ENDESA. Furthermore, ENDESA follows a prudent policy regarding the protection of intellectual property.

8.5 Patents and licences.

ENDESA owns various patents registered in Spain and/or the European Union and/or in other non-European countries. If appropriate, certain patents are transferred to ENEL Group companies with a licence for their use and, occasionally, they are sub-licensed to third parties.

At 31 December 2015, ENDESA had 23 patents in Spain.

9. Sustainability policy.

On 21 December 2015, the Board of Directors of ENDESA, S.A. approved the sustainability policy, which aims to determine and formalise the Company's commitment to sustainable development, making it clear in the mission, vision and values that make up ENDESA's principles of conduct.

ENDESA is an energy utility, which has electricity as its core business, a growing presence in the gas industry, and also supplies other related services. Its objective is to supply customers with quality service responsibly and efficiently, while providing a return to shareholders, promoting a culture of ethics and compliance, fostering employees' professional development, assisting with the development of the social environments where it operates and using the natural resources necessary for its activities in a sustainable manner, from the approach of creating value shared with all stakeholders.

Meeting ENDESA's economic, social and environmental responsibilities in a balanced way, on the basis of sustainability, is essential if it is to maintain its leading position and strengthen it in the future.

To this effect, the new commitments for the future, constitute the basis and guidelines for ENDESA's conduct in this area, and compliance with them is expressly supported by the Company's management, concerns employees, contractors and suppliers and is evaluated by third parties:

- These commitments are fully integrated in day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions which are included in successive sustainability plans.
- ENDESA has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments.
- The Company's focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.
- ENDESA is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholder groups.

ENDESA's new commitments for the future are:

- Customers: commitment to digital quality, commercial excellence and efficient energy consumption.
- Shareholders and investors: commitment to creating value and profitability.
- People: commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA.
- Conduct: commitment to good governance, transparency and ethical behaviour.

- Environment: commitment to reducing the environmental footprint and protecting the environment.
- Innovation: commitment to innovation in technology and the scope of services.
- Society: commitment to the socio-economic development of the communities in which we operate.
- Institutions: commitment to developing public-private partnerships to promote sustainable development.
- Workforce: commitment of those who work with us to be actively involved in sustainability.

10. Environmental protection.

10.1 ENDESA's environmental policy.

Sustainable development is one of the main pillars of ENDESA's strategy, and environmental protection one of the Company's most important commitments. This commitment clearly distinguishes ENDESA from other companies, as it constitutes a basic ethical principle expressly stated in its corporate values.

Through this commitment, ENDESA undertakes to minimise the environmental impact of its industrial activity, addressing issues related to the battle against climate change, proper waste management, and controlling atmospheric emissions, spillages and soil pollution, and other potentially harmful impacts.

Additionally, environmental management is aimed at minimising its consumption of natural resources and preserving biodiversity in the areas where ENEL Energy Europe, S.L.U. and its subsidiaries operate.

Evaluation of the environmental risks inherent to the company's activities and environmental certifications obtained from third-party agents help ensure excellence in the company's environmental management, which is fully integrated and aligned with its corporate strategy.

ENDESA has therefore been defining its environmental policy since 1998 with the initial aim of creating a business culture based on environmental excellence and inspired by the following basic principles:

- Integration of environmental management and the concept of sustainable development in corporate strategy, using environmental criteria documented in the planning and decision-making processes.
- Rational use of resources and reduction of environmental impacts, waste, emissions, effluents and other environmental effects, through the application of continuous improvement programmes and the establishment of environmental objectives and targets, ensuring that ENDESA's plants and activities are increasingly environmentally-friendly.
- Permanent monitoring, at all locations, of legislative compliance and regular reviews of its plants' environmental performance and safety, reporting on the results obtained.
- Conservation of the facilities' natural surroundings by adopting measures designed to protect plants and animals and their habitats.
- Application of the cleanest, most efficient and economically viable technologies at its facilities and promotion of technological research and development of renewable energy sources.
- Raising awareness of and sensitivity to environmental protection issues, through internal and external training programmes and collaboration with public-sector authorities, institutions and citizens' associations in all areas where it is active.

- Encouraging contractors and suppliers to implement environmental policies based on these same principles.
- Promoting energy saving and the rational and balanced use of energy sources among its clients and across society in general.

ENDESA aims to help achieve these targets through its environmental management plans and systems.

10.2 Environmental investment and expenditure.

ENDESA's environmental investment and expenditure in 2015 and 2014 were as follows:

Million Euros

Annual environmental gross investment	2015	2014	% chg
Business in Spain and Portugal	84	60	40.0
Business in Latin America ⁽¹⁾	-	53	N/A
TOTAL	84	113	(25.7)

(1) Information for 2014 relating to the Latin America business prior to its disposal.

Million Euros

Annual cumulative gross environmental investment	2015	2014	% chg
Business in Spain and Portugal	1,441	1,369	5.3
TOTAL	1,441	1,369	5.3

Million Euros

Annual environmental expenditure	2015	2014	% chg
Business in Spain and Portugal	99	116	(14.7)
Business in Latin America ⁽¹⁾	-	2	N/A
TOTAL	99	118	(16.1)

(1) Information for 2014 relating to the Latin America business prior to its disposal.

(2) Of total environmental expenditure, Euro 41 million in 2015 and Euro 50 million in 2014 went to the depreciation and amortisation of the investments.

10.3 ENDESA's environmental management systems.

ENDESA's environmental management systems are widely implemented throughout all its businesses.

The businesses are monitored at an environmental level by environmental management systems and indicators through which they are implemented. The indicators include the facilities' environmental impact (atmospheric emissions, water consumption, conventional pollutants in effluents, waste, etc.) and enable compliance with all existing legal obligations regarding environmental matters in relation to the business operations to be verified, as well as alignment with the path laid out by ENDESA to evaluate the degree to which the strategic objectives and goals defined.

Advanced environmental management.

ENDESA made further progress in the development of its environmental management in 2015, both in terms of certification, integrated environmental permits and environmental impact studies; measures were also implemented to improve the collection process and quality of the information submitted by the different areas.

Specifically, 100% of the total installed capacity, mines with extraction activities and port terminals, as well as its entire distribution business, were certified at 31 December 2015 under ISO 14001. With regard to office buildings, the Company has been awarded Energy Efficiency System (ISO 50001) and Environmental Management System (ISO 14001) at 18 of its offices and 6 buildings hold certificates for Indoor Air Quality (UNE 171330-3).

The certified environmental management system is the foundation upon which all management systems are integrated, depending on the business and the type of facilities, in an effort to complete and take advantage of the synergies these systems provide with respect to comprehensive management and additional reference to the International Standardisation Organisation (ISO) and/or A Spanish Standard (hereinafter, UNE by its Spanish acronym). In this connection, it is worth pointing out the EMAS (Eco-Management and Audit Scheme) rules for thermal power plants, the quality systems for coal-fired plants and laboratories, the energy efficiency management systems (ISO 50001) and the interior environmental quality certification (UNE 171330-3) for office buildings.

Integrated water management.

ENDESA has identified water as a critical resource that will be affected by climate change and the integrated management of water is one of its major concerns. The main programmes implemented by ENDESA focus on efficient consumption, water quality by controlling spillages and waste water, and reservoir management, assessing the ecological potential to provide shelter for birdlife, the possibilities to control invasive species and prevent the existence of dried up sections of regulated rivers.

ENDESA has a series of procedures in place to help control and reduce discharges into water systems and improve water quality, mainly through wastewater treatment facilities and makes periodically analysis to identify which of its facilities are located in water-stressed area.

Managing environmental risks and liabilities.

To comply with the requirements of the Spanish Environmental Responsibility Law -although the legislative framework accompanying this law has still not been fully completed, still lacking the Ministerial Order which sets the relevant time periods-, ENDESA has developed the MIRAT Project, which aims to establish the compulsory financial guarantee required by this law for conventional thermal and combined cycle (CCGT) power plants with a thermal capacity of over 50 MW, through an environmental risk analysis. Subsequently, and pursuant to the time periods established in the pending legislation, the compulsory financial guarantee for those power stations which require it, will be set after looking at the results of the environmental risk analysis.

As a result of its commitment to protecting the environment, ENDESA feels obliged to eliminate environmental liabilities, and, therefore, each facility identifies these liabilities and addresses them within the framework of their environmental management programmes, which may be reflected in their elimination, disposal or reuse.

Emissions management and regulation.

Atmospheric emissions.

ENDESA closely monitors all of its emissions to verify their characteristics and the volumes emitted. The Company complies with legally stipulated parameters, rolling out technologies that curb emissions and applying measures to reverse any resulting impacts.

2015 was the last year that annual ceilings were set for the installations included in the National Emissions Reduction Plan 2008-2015 ("PNRE") for large combustion facilities. As part of the commitments accepted in this plan, the Company has carried out major projects at its facilities to reduce atmospheric emissions, which have enabled it to keep them to the low levels of 2008 in the case of sulphur dioxide (SO₂) emissions, and achieve reductions of 42% in nitrogen oxide (NO_x) emissions, and 51% in particles, for large combustion facilities operating the National Emissions Reduction Plan ("PNRE"). Comparing the same installations included in the National Emissions Reduction Plan ("PNRE") to the benchmark year of 2006, the accumulated reduction was 87% for sulphur dioxide (SO₂) emissions; 62% in nitrogen oxide (NO_x) emissions and 83% in particles emissions.

The transposition of EU Directive 2010/75/EU on industrial emissions into Spanish law through Law 5/2013 of 11 June 2013, and Royal Decree 815/2013 of 18 October 2013, introduces new and stricter environmental restrictions in the area of pollutant emissions.

All mainland coal-fired units are included in the Transitional National Plan, with annual emissions ceilings being set for them, in order to achieve a gradual reduction in emissions between 2016 and mid-2020. This gradual reduction in emissions ceilings will mean a reduction of over 50% in sulphur dioxide (SO₂) and nitrogen oxide (NO_x), and approximately 40% in particles emissions, for those ENDESA installations included in the Plan.

The installations affected by EU Directive 2010/75/EU are included within the "small isolated system" mechanism, through which the deadline for compliance with the emission limit values is extended to 2020, so as to allow time to carry out the necessary investments.

In order to comply with the emissions ceilings of the Transitional National Plan and/or the most restrictive limit values which will be applied to the installations from 2020, they will need to undertake major investment in the area of electricity generation that will significantly reduce atmospheric emissions.

Waste

ENDESA has waste management and reduction systems in place, which are continually reviewed in order to identify ways to make improvements and implement them. Waste-reduction measures focus on reusing oil, removing transformers contaminated with PCB (polychlorophenols), gradually removing components containing asbestos, recovering inert waste, and treating cleaning solvents for reuse.

A significant portion of the waste recovered by ENDESA is at its external facilities, representing 90.3% of its total non-hazardous and 39.9% of its hazardous waste recovered.

The ashes from coal-fired power stations, which are likely to be a part of this, have received certification under Standard UNE-EN 450 1/2 to be used as an additive in the production of concrete. In this way, its quality is certified and its recovery value is maximised. In addition, the EuroGypsum quality standard has been awarded to the gypsum from the desulphurisation unit at the Litoral (Almería) thermal power plant, which certifies both its purity and quality and increases its value in the market.

Biodiversity conservation.

At the end of 2015, the Biodiversity Conservation Plan had 21 actions underway, of which 13 were launched in previous years (3 of them ended in 2015 and 10 are still in progress) and 8 new actions were begun in 2015. A breakdown of where these actions took place, shows that 38% of them were carried out in areas affected by the company's facilities and 29% were research projects, which, in the majority of cases included the publication of articles and scientific papers.

These actions took place throughout Spain and Portugal, in both mainland (90%) and non-mainland (10%) territories, and included many of ENDESA's business lines. Specifically, the area of generation accounted for 43% of the Plan actions, distribution some 24% and the remaining 33% of actions were in the corporate area.

The Biodiversity Conservation Plan's objectives for 2015 remain on the same main action lines as in previous years:

- Adapting the physical environment of the Company's land and facilities and encouraging biodiversity in a manner that is biologically and geographically compliant
- Managing environmental factors at our facilities to help improve the habitat of certain species or their biotopes
- Recognising ENDESA's natural heritage and the ecosystems this is home to, their value and state of conservation
- Protecting native species in and around ENDESA's plants and controlling invasive species that have a high ecological and business impact on ENDESA's business

11. Human resources.

11.1 ENDESA's workforce.

At 31 December 2015, ENDESA had a total of 10,000 employees, 4.8% less than a year earlier. ENDESA's average workforce in 2015 was 10,243 employees.

ENDESA's final and average headcounts in 2015 and 2014, by business lines, was as follows:

Number of Employees			
Workforce	31 December 2015	31 December 2014	% chg
Final headcount	10,000	10,500	(4.8)
Generation and supply	5,108	5,259	(2.9)
Distribution	3,502	3,688	(5.0)
Structure and Others ⁽²⁾	1,390	1,553	(10.5)
Average headcount	10,243	10,760 ⁽¹⁾	(4.8)
Generation and supply	5,183	5,395	(3.9)
Distribution	3,595	3,714	(3.2)
Structure and Others ⁽²⁾	1,465	1,651	(11.3)

⁽¹⁾ Business in Spain and Portugal.

⁽²⁾ Structure and services.

The breakdown, by gender, of ENDESA's workforce at 31 December 2015 was 79% male, and the remaining 21% were female.

Information on ENDESA's workforce is provided in Note 37 to the consolidated financial statements for the year ended 31 December 2015.

11.2 Occupational health and safety (OHS).

ENDESA considers Safety and Occupational Health a priority and a fundamental value to preserve at all times for all who work for the Company, without distinction between own staff and its partner companies.

Integrating this goal in ENDESA strategy embodied in the implementation of Safety and Occupational Health policies in all the companies comprising the Group in the implementation of specific plans which pursue the consolidation of the leadership model based on the example of the leader, and the implementation of a single global system for observing the behavior of work.

ENDESA also developed various initiatives in its annual long-term strategy of continuous improvement of Safety and Occupational Health. Activities in the year 2015 within the framework of this strategy have focused primarily on specific action plans against accidents, maintenance and creation of new alliances with partner companies, and various action plans with contractors of high accidentality.

In 2015 and 2014, the main Safety and Occupational Health indicators were as follows:

Main Indicators	2015	2014
Combined frequency index ⁽¹⁾	1.28	1.64
Combined seriousness index ⁽²⁾	0.08	0.08
Total number of serious and fatal accidents ⁽³⁾	65.0	82.2

⁽¹⁾ FI = (No. accidents / Number of hours worked) x 106.

⁽²⁾ SI = (No. days lost / number hours worked) x 103.

⁽³⁾ Of which 9 in the year 2015 and 4 in the year 2014 are serious and fatal accidents.

11.3. Responsible personnel management

It therefore endeavours to create a healthy, well-balanced working environment, where respect and personal consideration take priority, an environment that offers professional development opportunities based on merit and ability. To achieve this responsible management of personnel, ENDESA encompasses all its CSR initiatives for human resources in its Global Corporate Social Responsibility Plan for Human Resources, known as "Plan Senda", the objective of which is to ensure the responsible management of personnel, taking into account diversity, personal satisfaction, respect and development.

The Plan develops initiatives within the targets set out:

- Diversity and equal opportunity It also maintains its commitment to the principles of gender equality and non-discrimination and is working to become a company that respects and manages differences between people and ensures that all employees are treated equally and have the same opportunities. The actions included in the agreement on promoting the appointment of women to senior posts, signed with the Spanish Ministry of Health, Social Services and Equality, were also implemented in 2015.
- Work-life balance and flexibility. ENDESA also continues to take steps to consolidate its flexible working environment which is designed to enable its employees to strike a balance between personal, family and professional life. In 2015 ENDESA was certified as a Family-Friendly Company. The Fundación Másfamilia certificate requires ENDESA to uphold and foster its commitment to work-life balance, quality and responsible people management by pursuing a family-friendly company management model.
- Integration of people with disabilities and people at risk of social exclusion. ENDESA also developed its actions with regard to the integration of people with disabilities into the workforce, by direct or indirect contracting, via the purchase of goods and services, and by contracting services from specialist employment agencies.
- Promotion of volunteer work: ENDESA facilitates and encourages corporate volunteering among its employees. It is committed to the development of the communities in which it operates and contributes to their cultural, educational, environmental and social development. In 2015, 361 employees took part in volunteer work benefitting 712 people.
- Socially responsible investment.

11.4. Employment climate.

To respond to the new business environment, in 2015, ENDESA updated its organisational model with the aim of meeting the new challenges facing the Company. For this reason, ENDESA has decided to postpone the 2016 Work Safety Climate Survey in order to guarantee the quality and applicability of the results. The new organisational model, now consolidated, enables the identify, design and execute action plans in response to society's needs.

ENDESA, conscious of the importance of ongoing and committed improvement with adequate change management, has continued to implement the various existing action plans resulting from the Safety Climate Thermometer carried out in 2014, adapting them, when required, to the new organisational model.

11.5 Leadership and personal development.

ENDESA continually seeks to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark in the sector. In this regard, its Leadership Model, Management Model and Objective Management Systems guarantee personal development on the basis of merit and ability.

In 2015 ENDESA has worked on revising the Leadership Model to adapt it to the current business environment and adjust the factors and performance requirements to the new challenges facing the Company. The result is a Group brand identity that expresses the determination to transform ENDESA into an open platform. The Group's new vision is defined by its mission statement and through 4 main values (Responsibility, Innovation, Trust and Proactivity) which are expressed in 10 performance indicators that all employees will be appraised in next year.

In 2015, 33% of employees received a regular appraisal of their professional performance and development through one of the ENDESA's assessment systems. In addition, the "Getting to know you interview" initiative was rolled out, with the aim of holding an interview with all employees to discover their interests, aspirations and motivation. ENDESA has also provided employees with a number of professional development tools, such as individual development interviews, coaching, mentoring and skill-building workshops.

11.6 Training.

In 2015, ENDESA held 2,706 training events, in which 8,652 employees took part. 401,296 training hours were given, with an average of 40 hours per employee, compared with 39 hours in 2014. To undertake this activity, ENDESA invested Euros 24 million, of which Euros 4 million correspond to direct training costs.

The 2015 Training plan has focus in the areas of the Company's strategic focus and its main objective is to achieve the targets set for the year:

- A key area in 2015, across all businesses and staff areas, was training in occupational risk prevention, which accounted for 27% of total training investment. The aim has been to make the training programmes efficient in relation to the risks common to the different business areas, with transversal management and based on online methodology. In addition, specific actions took place in this area, such as naming "occupational risk prevention delegates", who have undertaken courses to update their knowledge on both current legislation and in ENDESA's own procedures. To complement this training, a number of awareness-raising events have also been held in relation to workplace safety, such as the advertising campaign aimed at all employees: "If we are 100% Aware, we are 100% Safe."
- A key initiative in 2015, was the launch of an awareness programme relating to the Company's Criminal Risk Prevention Model issued by the Internal Audit department. The objective of this online course is to inform ENDESA's employees and make them aware of the risks and responsibilities in these matters, and thereby prevent criminal offences within the company. The course has been taken by 76% of the workforce.
- Technical, commercial and administrative training accounted for 34% of the total investment in training. One of ENDESA's objectives is to improve customer service. For this reason, various areas of the business have taken part in a training programme designed to improve the management of complaints and to familiarise the workforce with the new management support tool for this.
- Additionally during the year, environmental training requirements were met, which contributed to the renewal of various certificates ENDESA holds: ISO 14001 and the Integrated Environmental, Energy Efficiency and Indoor Air Quality Management System.
- In relation to skills development and with the aim of improving the ability and performance of employees in all categories, training in social, management and leadership skills has been expanded.
- ENDESA makes clear its support for innovation and, for this reason, it has launched certain initiatives with the intention of improving skills related to it. The goal is to develop knowledge of tools and methodologies and contribute to cultural change, so as to have a greater innovative focus and improve efficiency through finding alternative and new ways of doing things.
- In this regard, the "business simulator" courses stand out; these are initiatives initially focused on all HR managers, and which aims to give them a greater understanding of the electricity business.
- Since ENDESA is part of the ENEL Group, a multinational company that operates in various countries, this has increased the need for languages, principally English and Italian.

11.7 Attracting and retaining talent.

In order to attract the best talent, ENDESA focuses on Employer Branding to promote itself as an attractive place to work in all the markets where the Company is present, especially among those profiles that are in most demand. To achieve this, the Company attended job fairs in person and online in 2015, working with a number of institutions to boost the Internship and Scholarship Plan. Application forms have been adapted to the current social environment in which social media presence and activity is very important.

Wherever possible, ENDESA covers vacancies through internal promotions, giving priority to employees who have performed exceptionally.

ENDESA encourages employees to participate in its hiring processes, fomenting internal mobility and providing opportunities for people looking for new learning and professional development opportunities

according to their interests and personal motivation. To this end, all job offers are first published internally through the Company's different internal communication channels.

In cases where internal promotion is not possible, ENDESA contacts those people who have already had direct links with the Company's activities, through internships, scholarships or specific contracts. It may also consult various databases. Where internal promotion is not possible the Company advertises on the job market.

ENDESA promotes international mobility as a means of multicultural development and integration, and it took part in the development of the "Global Opportunities" tool, which seeks to combine ENDESA's international personnel requirements and the demand and desire for professional development.

11.8. Social dialogue

Working conditions at ENDESA are regulated by collective bargaining agreements that generally improve the labour regulations in the fields where the Company operates. ENDESA guarantees the right to freedom of association for its employees and for all its contractors, suppliers and business partners.

There were 5 collective bargaining agreements in effect in Spain and Portugal at year-end 2015, covering 9,265 people, 92.7% of the workforce.

Pursuant to existing Spanish labour legislation and ENDESA's labour regulations in Spain (IV Framework Collective Agreement and the Framework Agreement ensuring labour conditions for ENDESA SA and its electricity subsidiaries with registered offices in Spain, Agreement on Voluntary Suspension) the criteria are established that should be adhered to where corporate restructuring operations take place (Chapter III of the Framework Agreement ensuring labour conditions). It is also established that the corporate restructuring operations shall be made known to the employee representatives, at least 30 days before they come into effect.

The most important actions regarding collective bargaining in 2015 were as follows:

- Negotiation and agreement on bonuses and geographic mobility as part of the IV Framework Collective Agreement.
- Negotiation and agreement on the transfer of workers between different companies.
- Negotiation and agreement on the reorganisation of the Distribution control centres.
- Information on various name changes of the companies.
- Agreement to apply the Code of Conduct Agreement and the Disciplinary Procedures included in the IV Framework Collective Agreement, to those people originally excluded from it.

In Spain, the trade unions representing ENDESA employees, held elections in February and March 2015, with the trade union *Unión General de Trabajadores* (UGT) achieving an absolute majority (55.71%).

Spain has been a member of the International Labour Organisation (ILO) since it was founded in 1919. The labour conventions and agreements in ENDESA in Spain are adapted to the existing ILO Conventions ratified by Spain.

12. Treasury Shares

ENDESA did not hold any treasury shares at 31 December 2015 and did not carry out any transactions involving treasury shares in 2015.

13. Other Information

13.1. Stock Market Information

The performance of ENDESA's share price on the Madrid stock market and major indexes in 2015 and 2014 was as follows:

Percentage (%)

Share price trend	2015	2014
ENDESA, S.A. ⁽¹⁾	11.9	(29.0)
Ibex-35	(7.2)	3.7
Eurostoxx 50	4.5	1.2
Eurostoxx Utilities	(5.1)	12.3

(1) If the dividends distributed in 2015, for a gross amount of Euros 0.76 per share, were taken into account, the return for shareholders in 2014 would have been 16.5%. If the dividends distributed in 2014, for a gross amount of Euros 15.295 per share, were taken into account, the return for shareholders in 2014 would have been 37%.

Stock market data	31 December 2015	31 December 2014	% chg
Market capitalisation (Million Euros)	19,613	17,522	12%
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Nominal share value (Euros)	1.2	1.2	-
Cash (Thousand Euros)	16,500,861	10,647,350	55%
Madrid stock exchange (Shares)			
Trading volume	919,800,874	616,836,741	49%
Average daily trading volume	3,592,972	2,418,968	49%
Price to Earnings Ratio (P.E.R.) ⁽¹⁾	18.1	5.3 ⁽²⁾	2.4

(1) Closing share price / Earnings per share

(2) Price to Earnings Ratio (P.E.R.) Continuing operations: 18.4.

Euros

ENDESA share price	2015	2014	% chg
Maximum	20.59	31.29	(34.2)
Minimum	15.57	13.71	13.6
Average in the period	18.23	24.82	(26.6)
Closing price	18.52	16.55	11.9

2015 was a difficult year for global equities, as it was characterised by volatility, uncertainty surrounding economic growth and political instability, mainly from the second quarter onwards.

One of the chief reasons for this erratic market behaviour, from April 2015 onwards, can be found in the continued slump in the price of crude oil, which ended the year around USD 37/bbl; its lowest level since 2004. Other important factors included geopolitical tensions; the weakness of commodity prices in the face of doubts about emerging market growth, and particularly slower growth in China; the delicate state of the Greek economy and its possible contagion to other European countries, and the uncertainty regarding the likely actions of the two big central banks. In December, the ECB raised the rate that banks have to pay them to deposit funds, with the aim that this would increase bank lending and also extended the asset purchase programme until March 2017. The FED, on the other hand, raised interest rates in the US in December; the first rise since 2006. The 25 basis points rise in the cost of borrowing put an end to seven years of zero rates.

Despite these tensions, the majority of markets managed to end the year with rises, though with notable contrasts. In European markets, the Italian exchange stood out, with a an increase of 12.66%; Germany came next (+9.56%) and then France (+8.53%), all favoured by the depreciation of the euro against the US dollar, which benefitted exporting companies. The pan-European Eurostoxx 50 index, also closed with gains of 4.5%, unlike the UK (-4.93%) and Spanish stock markets (Ibex-35: -7.15%) which ended the year with losses. The Ibex-35 had its worst year since 2011, and the first negative one after two consecutive years of gains.

Of particular note outside Europe, were the NASDAQ technology sector index in the US (+8.43%) and the Japanese Nikkei (+9.07%), though at the same time, on a negative note, the S&P 500 (-0.73%) and the Dow Jones (-2.23%) industrial index closed down, despite both achieving historic highs in the first half of the year.

The poor relative performance of the Spanish market was justified, other than by the factors mentioned above, by the political uncertainty generated following the Catalan elections on 27 September 2015, and the fragmented result of the Spanish general election on 20 December 2015. The Spanish bourse was also affected by the major exposure of the top Ibex-35 companies to Latin America, and in particular to Brazil, where the Bovespa index closed with a fall of 13.31%, due to doubts about domestic economic growth, especially after rating agency, Standard & Poor's, gave their sovereign bonds junk status in September. The Peruvian IGBVL index lost 33.42% and the Colombian COLCAP dropped 23.74%. The best performances in the region were recorded by the IPSA index (Chile) which fell only 4.43%, the Mexican IPC with a small drop of 0.38%, and the Merval (Argentina), which recovered some 36%. In Spain, the political tensions were also particularly obvious in the performance of the Spanish risk premium. Though it reached its historic low in March at 88 basis points, the spread with the German bond ended the year around 114 basis points, though this was still far from the maximum reached in July at the height of the Greek crisis (164 basis points). At the end of 2015, the Spanish 10Y bond yield was 1.78%.

The overall performance of the European electricity sector, as reflected in the Dow Jones Eurostoxx Utilities, was negative, as this sector index closed the year 5.08% down, especially hit by the poor performance of German and French utilities that reacted to adverse regulatory changes to the conventional electricity business in their own countries with heavy market losses, and plummeting raw material prices, which dragged down electricity prices.

In contrast, Spanish electricity producers stood out in general for their positive performance, now that the industry is beginning to see the fruits of the government's energy reforms of the last few years, and that can be seen in particular through the generation of a tariff surplus for the first time in the last 10 years. In addition, investors backed electricity companies as safe-havens, since their defensive businesses and recurring income allowed them to weather the uncertainty.

In this scenario, ENDESA was one of the best sector stocks, favoured by its high regulated component and an attractive dividend policy. On one side, the sale of the Latin American assets at the end of 2014, allowed it to avoid the turbulence created during the year in this region, but at the same time, and as a result of its greater exposure to the Spanish and Portuguese markets, the political instability in Spain at the end of the year also ended up affecting its share price.

ENDESA's share price closed 2015 with an increase of 11.93%. To this positive market performance, must be added a dividend yield of 4.59%, with an ordinary dividend payment of Euro 0.76 per share, charged against 2014 earnings; meaning that the total return on the share, calculated as the sum of the stock market return and the dividend yield, amounted to 16.53% in 2015.

The share price reached its maximum for the year on 17 November 2015 at Euros 20.59 per share, 24.4% higher than at the beginning of the year. The share price reached a minimum of Euros 15.57 per share at close of trading on 5 January 2015. Therefore, the share has traded above Euros 13.5 per share, the price at which the Public Offering was made by the Company in November 2014. The ENDESA share price ended the year at Euros 18.525 per share.

13.2. Dividend policy.

The Board of Directors of ENDESA, S.A. is tasked with the function of ensuring that the Company is guided by corporate interest, understood as the achievement of a profitable and sustainable long-term business that fosters continuity and maximise economic value. In the area of shareholder remuneration this involves a dividend policy designed to give shareholders the maximum possible return on their investment in the Company, without jeopardising its sustainability or long-term growth potential.

With regard to this commitment, the Board of Directors of ENDESA, S.A. established the following dividend policy on 20 November 2015:

- 2015 and 2016: the ordinary dividend per share distributed against both years will be the equivalent to 100% of net income attributable to the parent set down in the consolidated annual financial statements provided that this amount is higher than the result of applying a minimum 5% increase to the ordinary dividend paid with a charge to the prior year.
- 2017 to 2019: the ordinary dividend per share to be distributed in these years will be the equivalent of 100% of ordinary net income attributable to the parent set down in the consolidated annual financial statements of the Group headed by this company.

The Board of Directors intends to pay this ordinary dividend exclusively in cash and in two payments (January and July) on the specific date to be confirmed in each month, which will be clearly announced.

However, 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.

Looking ahead to 2015, at its meeting held on 21 December 2015, ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2015 income of Euros 0.4 per share, which gave rise to a pay-out of Euros 424 million on 04 January 2016.

The proposed distribution of net income in 2015 to be presented at the General Shareholders' Meeting by ENDESA S.A.'s Board of Directors will be a total gross dividend of Euros 1.026 per share (see section 16 Proposed Distribution of Profit of this consolidated management report). Taking into account the interim dividend mentioned in the above paragraph, the complementary dividend against 2015 profit for the year would be equal to Euros 0.626 gross per share.

14. Information on the Average Payment Period to Suppliers and Creditors

Information regarding the average payment period to suppliers and creditors is provided in Note 22.1 of the Notes to the Consolidated Financial Statements for the year ended on 31 December 2015.

15. Annual Corporate Governance Report as required under Article 538 of Legislative Royal Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act

The 2015 Annual Corporate Governance Report is attached as an Appendix to this consolidated management report and is an integral part hereof, as required under Article 538 of Legislative Royal Decree 1/2010, of 2 July 2010, approving the Consolidated Text of the Spanish Corporate Enterprises Act.

16. Proposed Distribution of Profit.

The profit for 2015 of ENDESA, S.A., the Parent, amounted to Euros 1,135,023,514.03 euros.

The Company's Board of Directors will propose to the shareholders at the General Shareholders' Meeting that this amount be used to make a dividend payment of Euros 1.026 gross per share with the rest taken to retained earnings.

		Euros
Dividends	(1)	1,086,279,672.04
To retained earnings		48,743,841.99
TOTAL		1,135,023,514.03

(1) Maximum amount to be distributed based on Euros 1.026 gross per share for all shares (1,058,752,117).

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