2016-2019 Strategic Plan Update

23 November, 2015

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In Collaboration with RobecoSAM

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Agenda

1. Introduction

Highlights

Industry trend geared towards a zero CO2 emission economy

Regulatory stability expected as structural tariff surplus from 2014 onwards

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

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

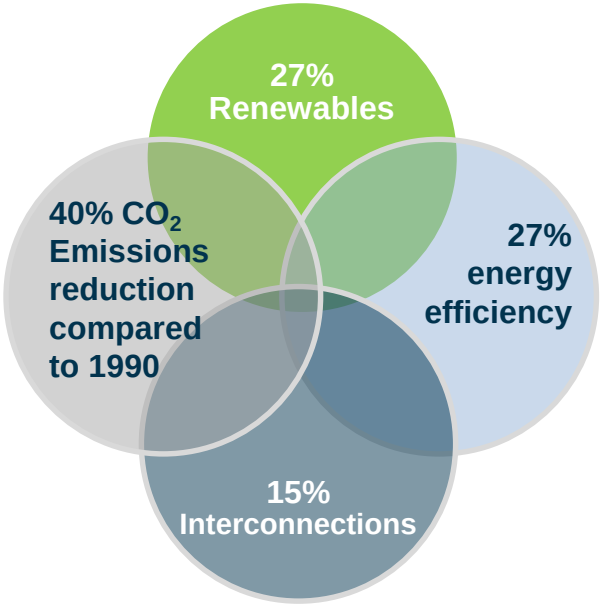
Very attractive dividend policy: 100% pay-out in 2017-19

2. Energy outlook

Energy policy

Climate change objectives

EU 2030 targets



Road to 2050: 80% reduction in CO_2 vs. 1990 levels

To reach objectives …

Full electric

Renewable

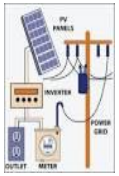
+

Storage

… leveraging on

Electric vehicle

HVAC[1]



Renewable (distributed and centralized)

Efficiency x3 (electric vs fossil)

+

100% renewable

=

"Zero" CO2 and NOx emission

Long term, full electrification of demand

(1) HVAC: Heating, ventilation and air conditioning

Key issues in the medium to long term energy outlook

Electricity tariffs

- Global energy policy costs should be removed from electricity bill

RES

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

Nuclear

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

Coal

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

Interconnections

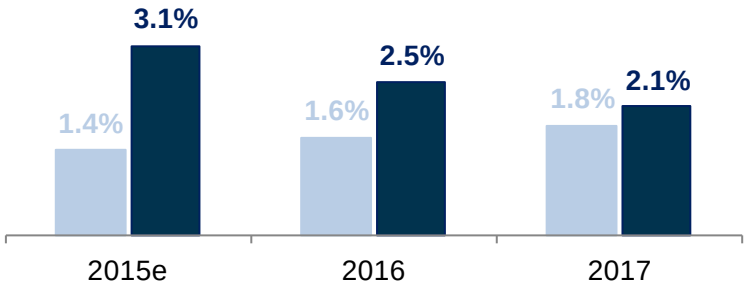
- Promote interconnections following cost-benefit analysis
- Promote tax harmonization in the EU

3. Market trends and strategy

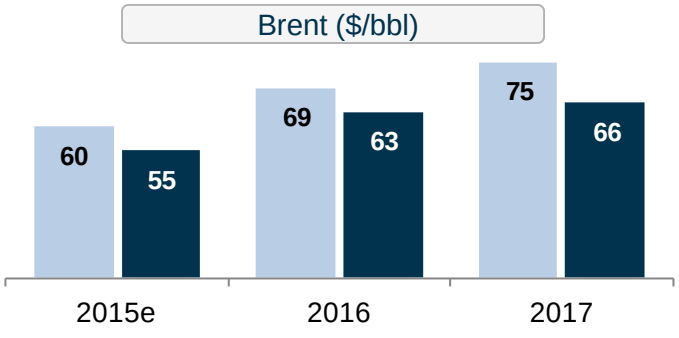
Macro assumptions

Old assumptions
New assumptions

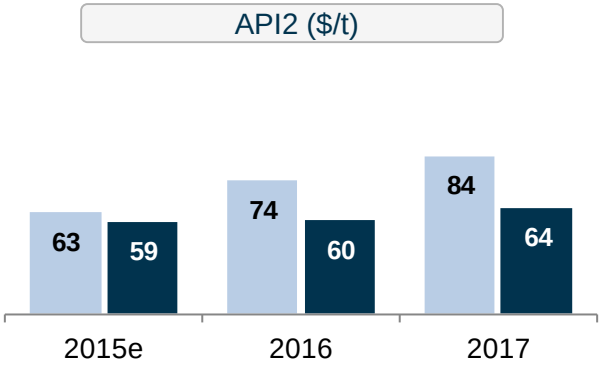
Spanish GDP evolution

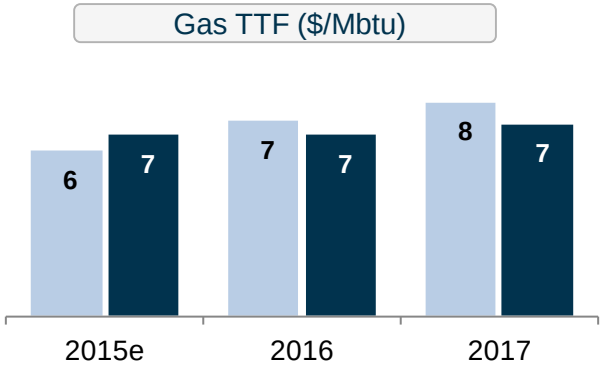


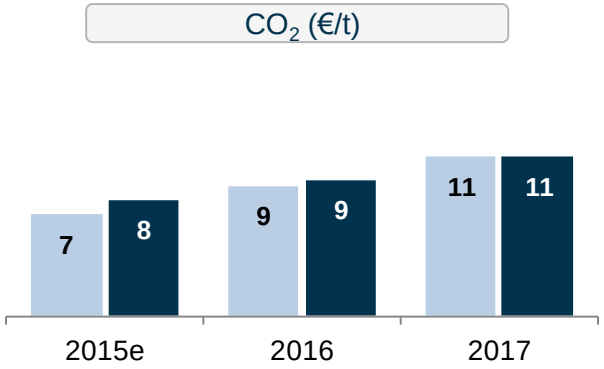
Commodities (I)



Commodities (II)

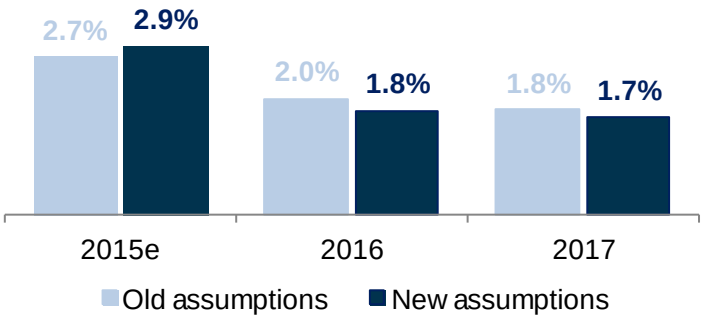




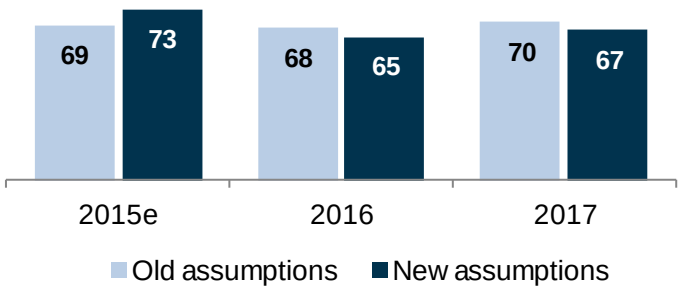


Electricity market assumptions in Spain

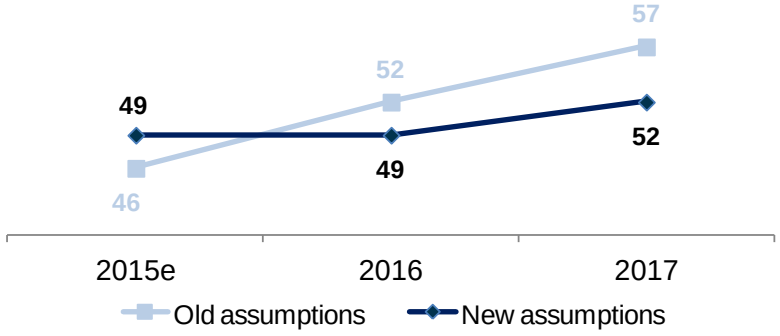
Mainland electricity demand (%)



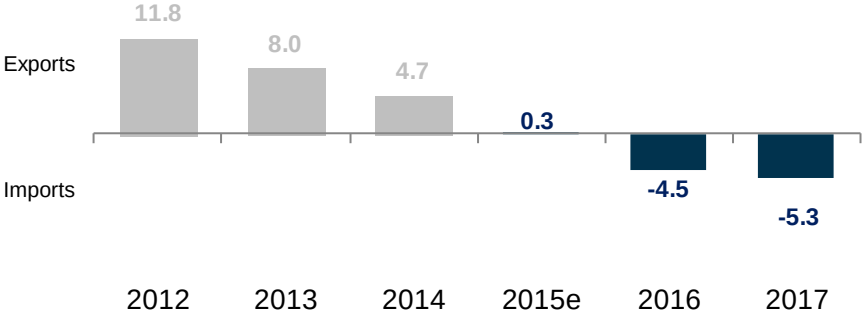
Thermal Gap (TWh)



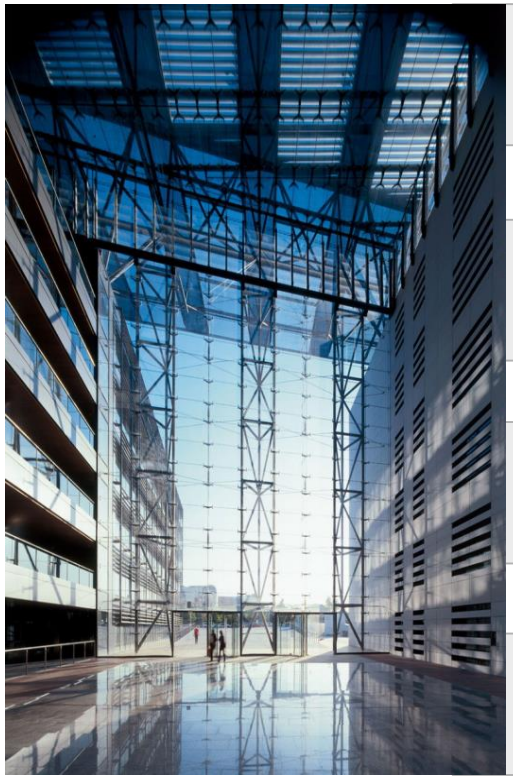
Wholesale electricity prices (€/MWh)



Interconnections (TWh)



Strategy

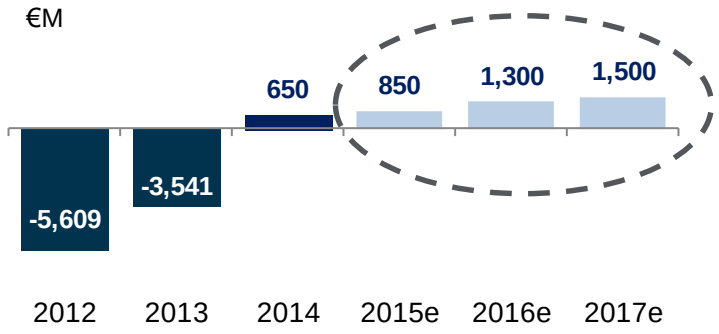


1. Realize full potential of regulation
2. Growth in regulated and liberalized business
3. Focus on efficiency
4. 2015-2019 Capex program focused on profitable investments

Stable regulatory framework

Current and potential uses of expected tariff surplus

Tariff deficit and expected tariff surplus evolution



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

- **Sector proposal for the use of tariff surpluses:**

  Reduction or elimination of 7% generic tax on generation from 2016 onwards would imply….

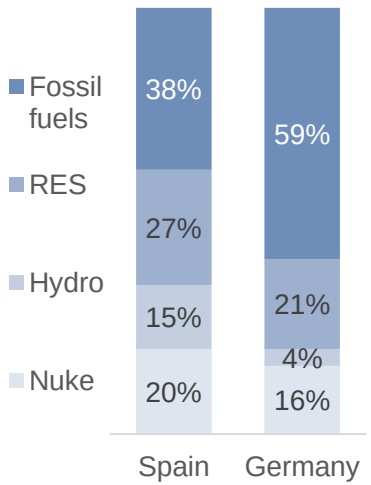
  ✓ ….a reduction in the electricity bill

  ✓ Improved competitiveness of the economy

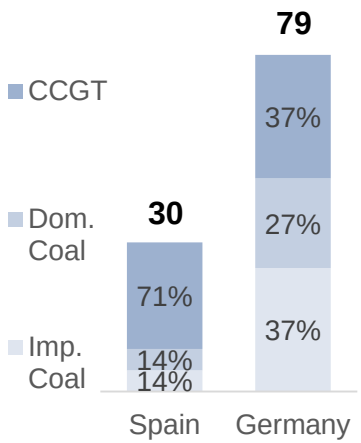
Possibility to reduce energy bill and adjust some market distortions

Spain vs. Germany: gap electricity prices drivers

Generation mix(1)

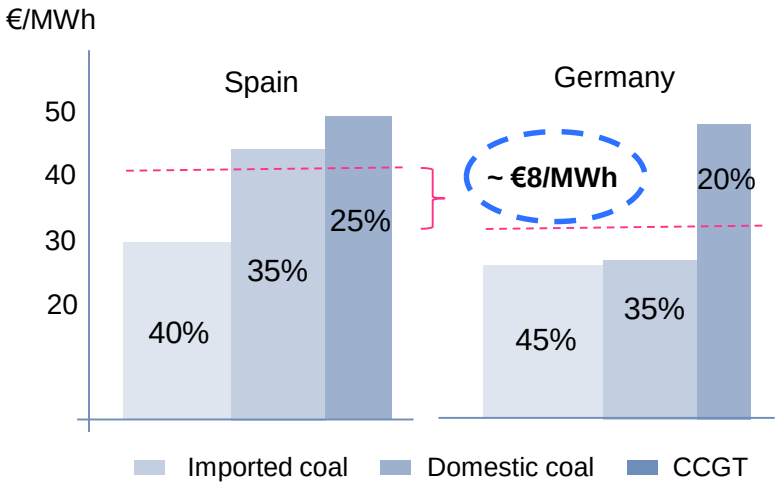


Current thermal capacity (GW)



Reference variable cost(2) (merit order ex generation taxes)

(% of hours at margin out of total)



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

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

Competitive thermal mix is key to keep power prices low

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

Stable regulatory framework

Energy reform almost completed with some issues close to conclusion

✓ Availability date
? Expected date

Proximity in time

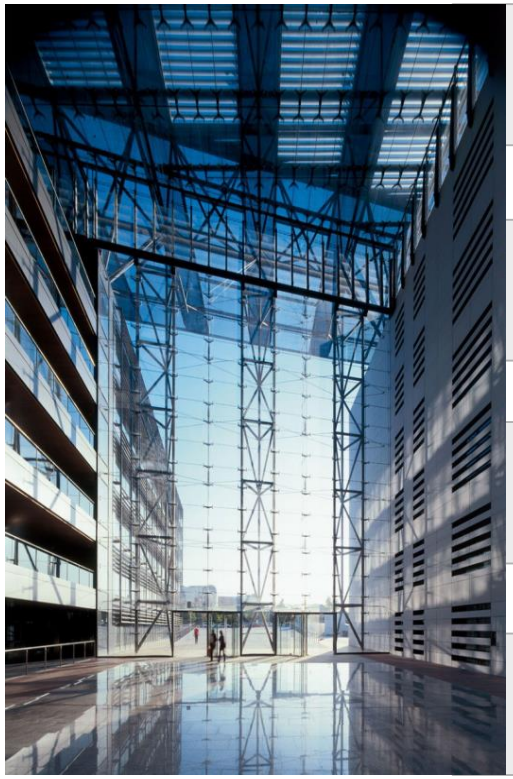
Distribution

- CNMC non-binding report on standard values for investment and O&M — ✓ October 2015
- Ministerial Order — ? Year End 2015

Domestic coal power plants (IED related investments)

- Endesa coal power plants within the Transitional National Plan — ✓ September 2015
- CNMC report on 3rd Draft Ministerial Order — ✓ October 2015
- New Ministerial Order — ✓ Work in progress
- Submission to European Commission — ? Pending
- Final decision to undertake IED investment — ? Mid 2016

Strategy



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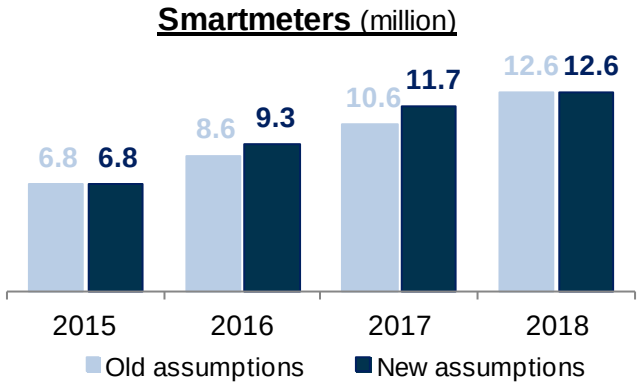
Growth in regulated business

Distribution. Main initiatives in place

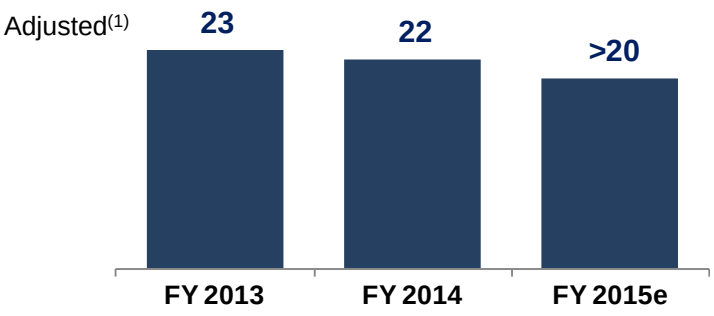
	Description	Main benefits
Acceleration of smart meters installation	 Total Capex: €0.6 bn	▪ Meter rental fees in addition to RAB regulated revenues ▪ Overall cost improvement of €50 M/year ▪ Reduction of non-technical losses
Quality Plan	▪ Increase the level of automation and telecontrol of the MV/LV network ▪ Total capex (2016-19): €0.1 bn	▪ RAB remunerated ▪ Optimize quality reducing cash-cost ▪ Upgrade communications networks ▪ Improve quality of service: -10 minutes of TIEPI(1) ▪ Savings in the operation of MV/LV grid
Control Room integration	▪ Total capex (2017-19): €0.1 bn	▪ Integrated system allowing management of the entire grid from any location ▪ Increased efficiency in operations, safety and security

(1) Installed capacity equivalent interruption time

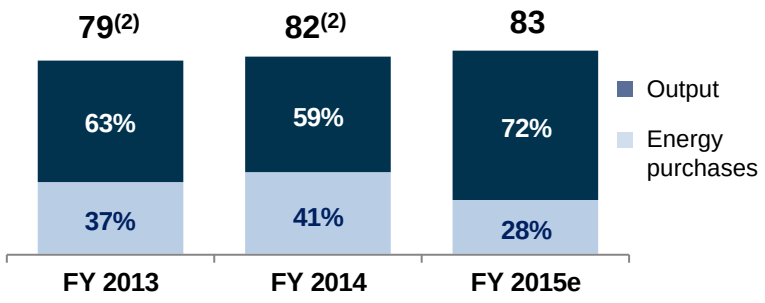
Growth in liberalized business

Leveraging our integrated position

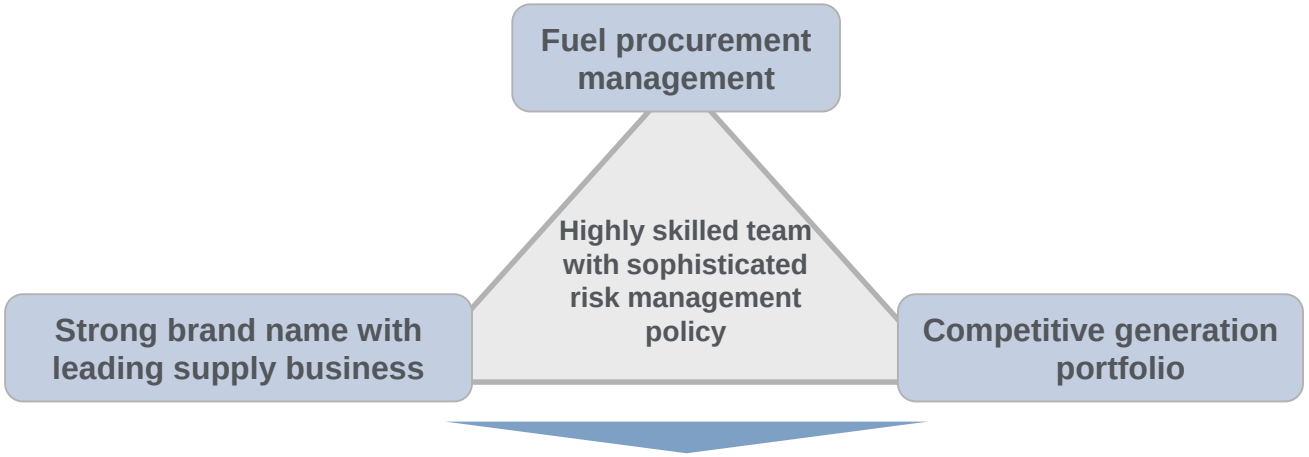
Endesa's unitary margin (€/MWh)



Endesa's energy mix (TWh)



	FY 2013	FY 2014	FY 2015e
Pool Price €/MWh (3)	44	42	51
System Thermal Gap (TWh)	60	62	73



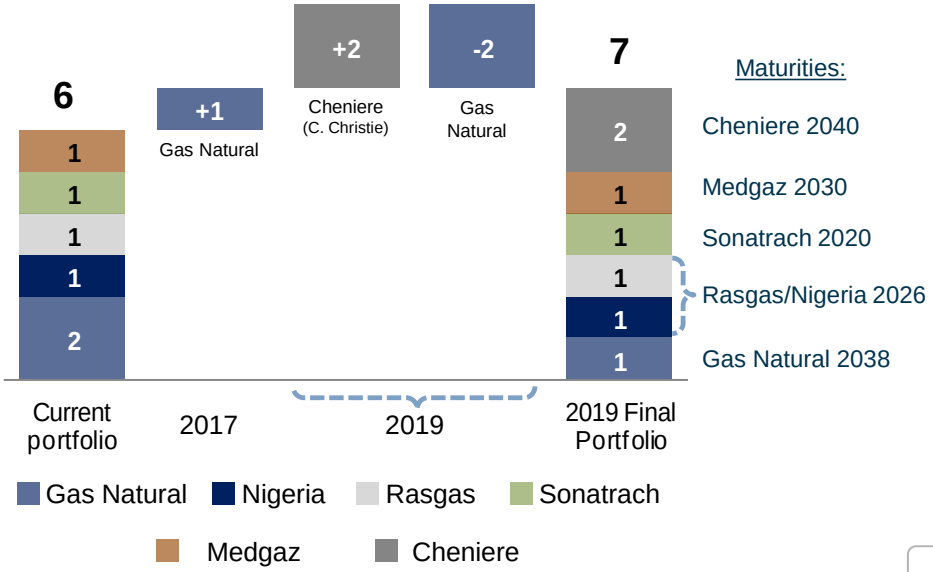
Sustainable electricity margin in any market scenario

(1) Considers reported figures adjusted by social bonus and RD on national coal effects in 2013 y 2014. Reported figures are €23.4/MWh in 2013 and €19/MWh in 2014
(2) Excluding domestic coal output under RD on national coal
(3) Arithmetic average Pool Price

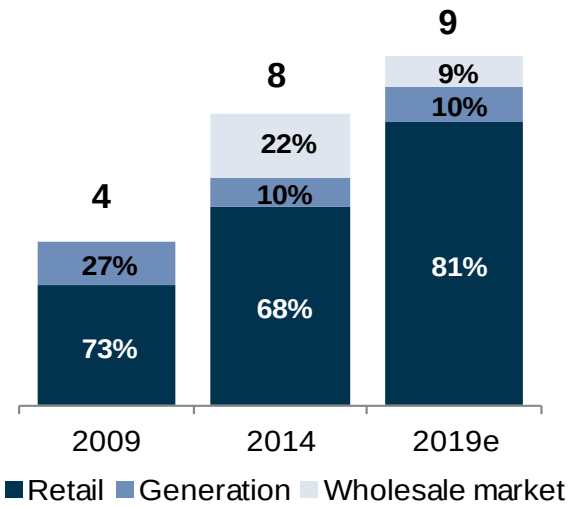
Growth in liberalized business

Sources and uses of gas

Gas procurement portfolio evolution (bcm)



Historic and future gas uses (bcm)



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

Good balance of sources and uses of gas

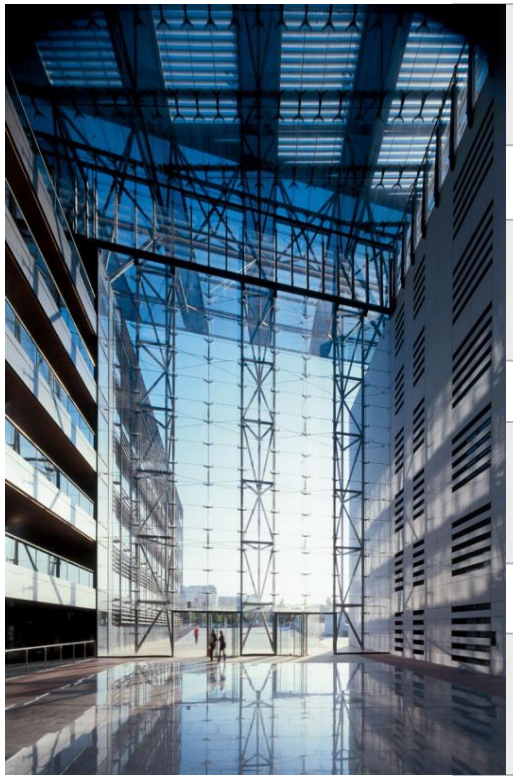
Growth in liberalized business

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

	General targets	2019 targets	Plans and actions
Spain	▪ Consolidating electricity leadership while growing in gas ▪ Strong growth in VAS	✓ 11.2 M electricity customers ✓ +30% gas customers ✓ 2014 VAS margin x2	▪ Selective acquisitions of gas and electricity customer portfolios (i.e., GALP transaction) ▪ Launch of innovative products with a wide range of commercial offers (i.e., Tempo, Nexo)
Portugal	▪ Growth in electricity and gas ▪ Deployment of VAS	✓ To double electricity market share (~9%) ✓ 6% gas market share	▪ Full business process outsourcing ▪ New B2C gas customers (first 2,000 clients)
France	▪ Gas expansion	✓ To more than double gas sales	▪ +25% in 2015 vs. 2014

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

Strategy



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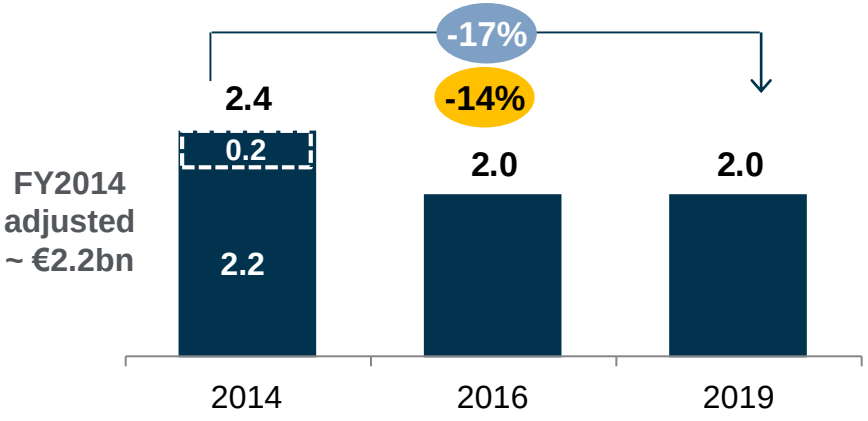
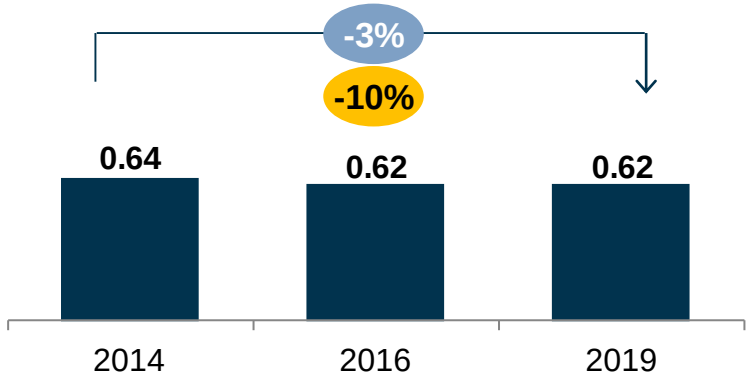
Increased focus and commitment to efficiency….

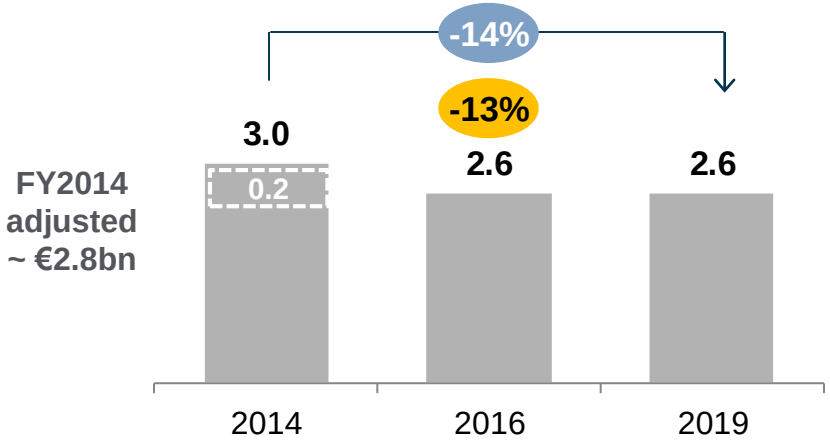
Opex [1] (€bn)



Maintenance capex [2] (€bn)



Cash costs (€bn)



New target

Previous target

Further cash-cost reduction

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

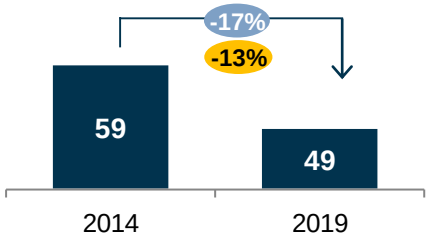
… in every business line

New target
Previous target

Distribution

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

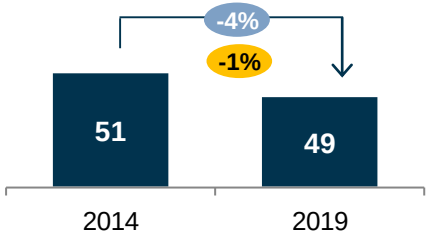
Distribution unitary cost (1)
(€/customer)



Generation

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

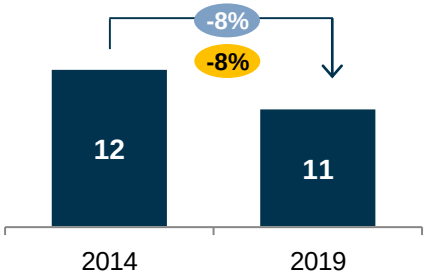
Generation unitary cost (1)
(k€/MW)



Supply

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

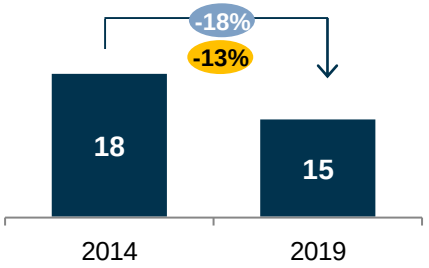
Cost to Serve
(€/customer)



Corporate

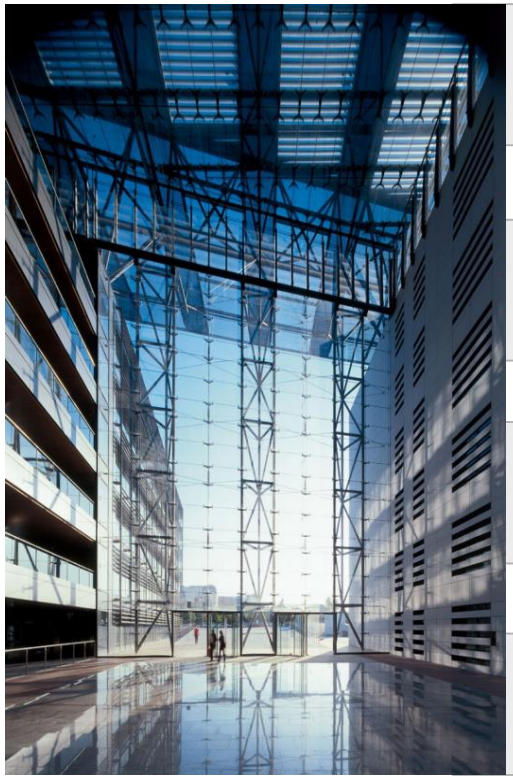
- Zero base budget revision and reorganization

% of total fixed costs



(1) Includes Corporate fees

Strategy



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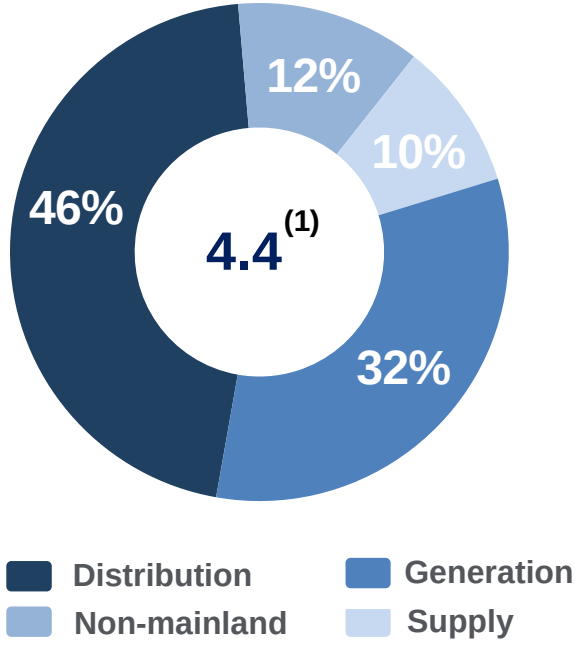
2015-2019 Capex program focused on profitable investments

Net CAPEX by business (€bn)



Main projects

Distribution	• Smart meters deployment • Quality plan / Control room integration	€0.6 bn €0.2 bn
Generation	• Imported coal IED investments	€0.4 bn
Non-mainland	• IED investments • Replacement projects	€0.3 bn €0.1bn
Supply	• VAS	€0.3 bn

Growth investments return: Spread IRR over WACC≥ 200bp

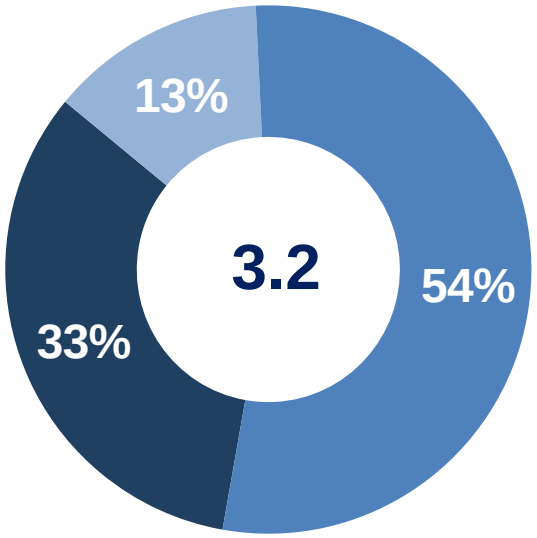
Capex program adjusted to market context

(1) Gross capex amounts to 5.6 bn€

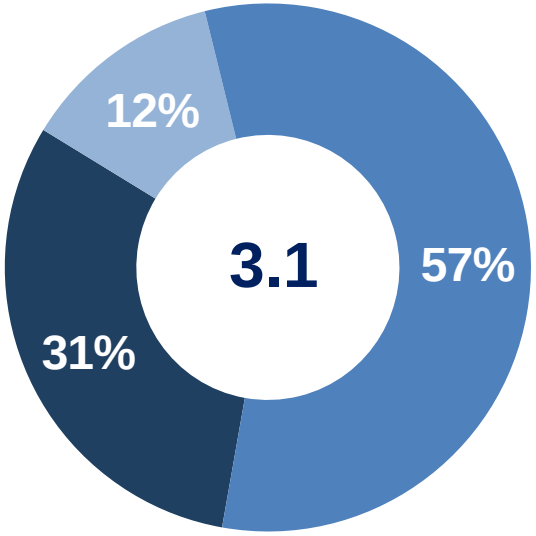
4. Financial guidance and dividend policy

2016-2017 EBITDA evolution

2016 (€bn)



2017 (€bn)



Previous target €3.1 bn

€3.1 bn

CAGR 2014-19: 2.9%

Distribution | Generation&Supply | Non-mainland

2017 EBITDA ~ 70% regulated

2015-2017 key financial metrics

	2015e	2016	2017
EBITDA	≥ *€3.0 bn*	*€3.2 bn*	*€3.1 bn*
Net Income	≥ *€1.0 bn*	*€1.3 bn*	*€1.2 bn*
Cumulative Free Cash Flow	*~€3.8 bn*		

Creating value for shareholders

2015-2019 dividend policy

	2015-2016	2017-2019
Amount	▪ **Maximum amount per share between** • **100% Pay-out** • **Minimum annual DPS growth target of 5%** on the ordinary dividend per share paid against previous year's profit	▪ **100% Pay-out of ordinary net attributable income**
Timing	▪ **Bi-annual dividend payment** • Interim dividend payable in January and final dividend payable in July	
Consideration	▪ **100% cash pay dividend**	

One of the most attractive dividend policies in the utility sector

5. Proven track record of meeting and exceeding targets

Proven track record of meeting and exceeding targets

	October 2014 Investor Day	November 2015
Main regulatory topics	▪ *Tariff sufficiency from 2014*	✓
	▪ *Law 15/2012 taxes recognition in non mainland*	✓ ▪ *RD 738/2015*
Financial guidance	▪ *EBITDA 2014: €2.9 bn*	+ ✓ ▪ *EBITDA 2014: €3.1 bn*
	▪ *EBITDA 2015: €2.9 bn*	+ ▪ *EBITDA 2015e: ≥ €3.0 bn*
	▪ *EBITDA 2016: €3.1 bn*	+ ▪ *EBITDA 2016: €3.2 bn*
		New ▪ *EBITDA 2017: €3.1 bn*
	▪ *Net Income 2015: €1.0 bn*	+ ▪ *Net Income 2015e: ≥ €1.0 bn*
	▪ *Net Income 2016: €1.1 bn*	+ ▪ *Net Income 2016: €1.3 bn*
		New ▪ *Net Income 2017: €1.2 bn*
Dividend policy time frame	▪ *2014-2016*	New ▪ *100% pay-out[1] 2017-2019*

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

6. Closing remarks

Closing remarks

1. Industry move towards electrification of demand on the back of climate change targets
2. Business plan framed in a stable regulatory context
3. New challenging scenario more than offset by management actions
4. Financial targets upgraded
5. Capacity to generate stable and predictable cash flow
6. 100% pay-out[1] 2017-2019

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Inclusion in DJSI for the 15th year in a row

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

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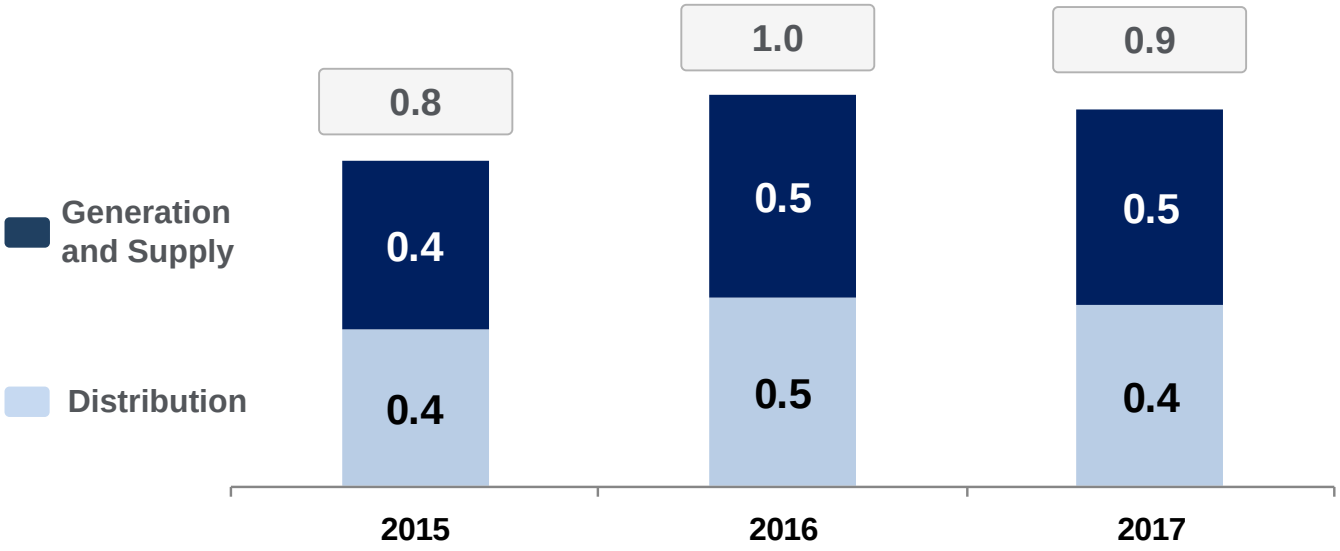
Annexes

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



	2015	2016	2017
Previous target (net Capex)	0.8	0.9	0.9
Gross Capex (new assumption)	1.0	1.2	1.2

Endesa is an Enel Group Company

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