

ENDESA, S.A.
and Subsidiaries

**Consolidated Management Report for the
year ended 31 December 2017**

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

Madrid, 28 February 2018

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

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED MANAGEMENT REPORT FOR
THE YEAR ENDED 31 DECEMBER 2017

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ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR

THE YEAR ENDED 31 DECEMBER 2017

ENDESA drew up this Consolidated Management Report for the year ended 31 December 2017 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 carries out its corporate objects in Spain and abroad directly or through its investments in other companies.

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

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

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

At 31 December 2017, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberia, S.L.U.

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

Position	Member
Chief Executive Officer	José Damián Bogas Gálvez
General Manager - Communication	Alberto Fernández Torres
General Manager - Energy Management	Alvaro Luis Quiralte Abelló
General Manager - Human Resources and Organisation	Andrea Lo Faso
General Manager - Renewable Energies	Enrique de las Morenas Moneo
General Manager - Infrastructure and Networks	Francesco Amadei
General Manager - Supply	Javier Uriarte Monereo
General Manager - Institutional Relations and Regulation	José Casas Marín
General Manager - Media	José Luis Puche Castillejo
General Manager - E-Solutions	Josep Trabado Farré
General Manager - Nuclear Power	Juan María Moreno Mellado
General Manager - Audit	Luca Minzolini
General Manager - ICT	Manuel Fernando Marín Guzmán
General Manager - Generation	Manuel Morán Casero
General Manager - Sustainability	María Malaxechevarría Grande
General Manager - Purchasing	Pablo Azcoitia Lorente
General Manager - Administration, Finance and Control	Paolo Bondi
General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs	Francisco de Borja Acha Besga

The annual corporate governance report, which describes the organisation of the ENDESA, S.A. Board of Directors, and the bodies to which the Board delegates its decisions, is attached to this Consolidated Management Report as Appendix II.

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

1.3. Main markets.

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

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

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

Market in Spain.

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.
 - Conventional mainland electricity generation is a deregulated activity, although there is specific remuneration for generation with renewable energies.
 - Further, conventional generation in Non-mainland Territories (TNP) is subject to specific regulations which address the particular nature of their geographical location, and their remuneration is regulated. For generation using renewable energies in Non-mainland Territories (TNP) an incentive is established for investment when generation costs are reduced.
- **Supply of electricity, gas and value added services and products:** 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.
- **Electricity distribution:** The purpose of the electricity distribution activity is to distribute electricity to the consumption points. Electricity distribution is a regulated activity.

Section 2.6. Statistical Appendix to this Consolidated Management Report provides a breakdown of ENDESA's main figures at 31 December 2017.

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.

1.4. Corporate Map

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

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

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

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

ENDESA Generación, S.A.U. comprises holdings in Gas y Electricidad Generación, S.A.U. (100%), Unión Eléctrica de Canarias Generación, S.A.U. (100%), ENEL Green Power España, S.L.U. (EGPE) (100%) and a 50% stake in Nuclenor, S.A., which owns the Nuclear Plant at Santa María de Garoña (Burgos).

At 31 December 2017, ENDESA's installed capacity at ordinary regime facilities was 21,057 MW, of which, 16,483 MW corresponded to the mainland electricity system and the remaining 4,574 MW to Non-mainland Territories (TNP) (Balearic and Canary Islands and the cities of Ceuta and Melilla). At this date, the net installed capacity for renewables was 1,675 MW.

In Spain and Portugal, ENDESA had total net output in 2017 of 78,648 GWh (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

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

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

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

At 31 December 2017 ENDESA distributed electricity in 27 Spanish provinces and across 10 Autonomous Communities (Andalusia, Aragón, the Balearic Islands, the Canary Islands, Castilla y León, Catalonia, Valencia, Extremadura, Galicia and Navarra), covering a total area of 195,279 km² with a total population of nearly 22 million.

ENDESA had over 12 million distribution customers, and in 2017 its network supplied a total power output of 117,961 GWh, measured at busbar cost (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

Energy supply: ENDESA Energía, S.A.U.

The company 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.

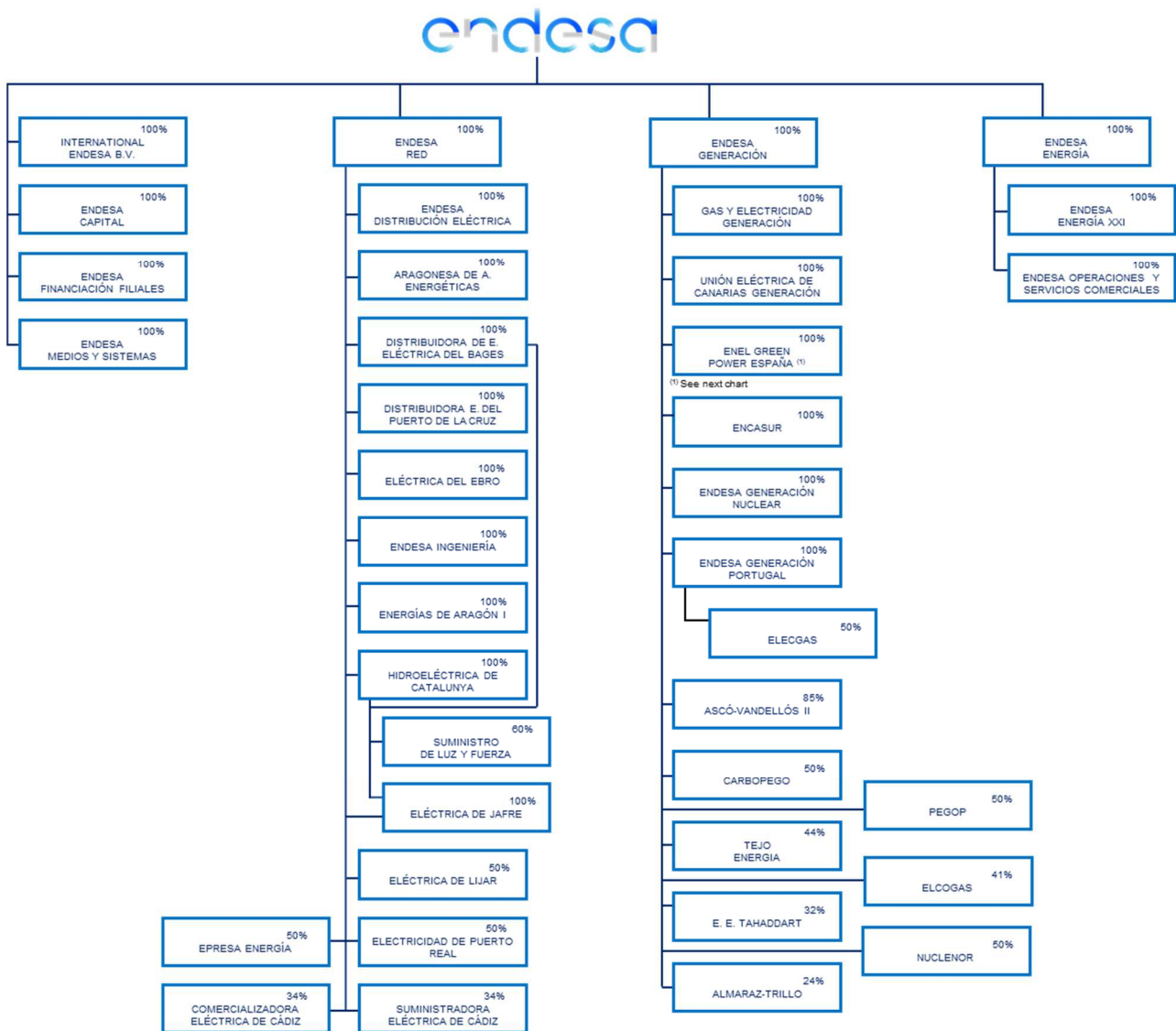
ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., (100%), a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. (100%), which provides commercial services in relation to the supply of electricity. ENDESA Energía, S.A.U.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

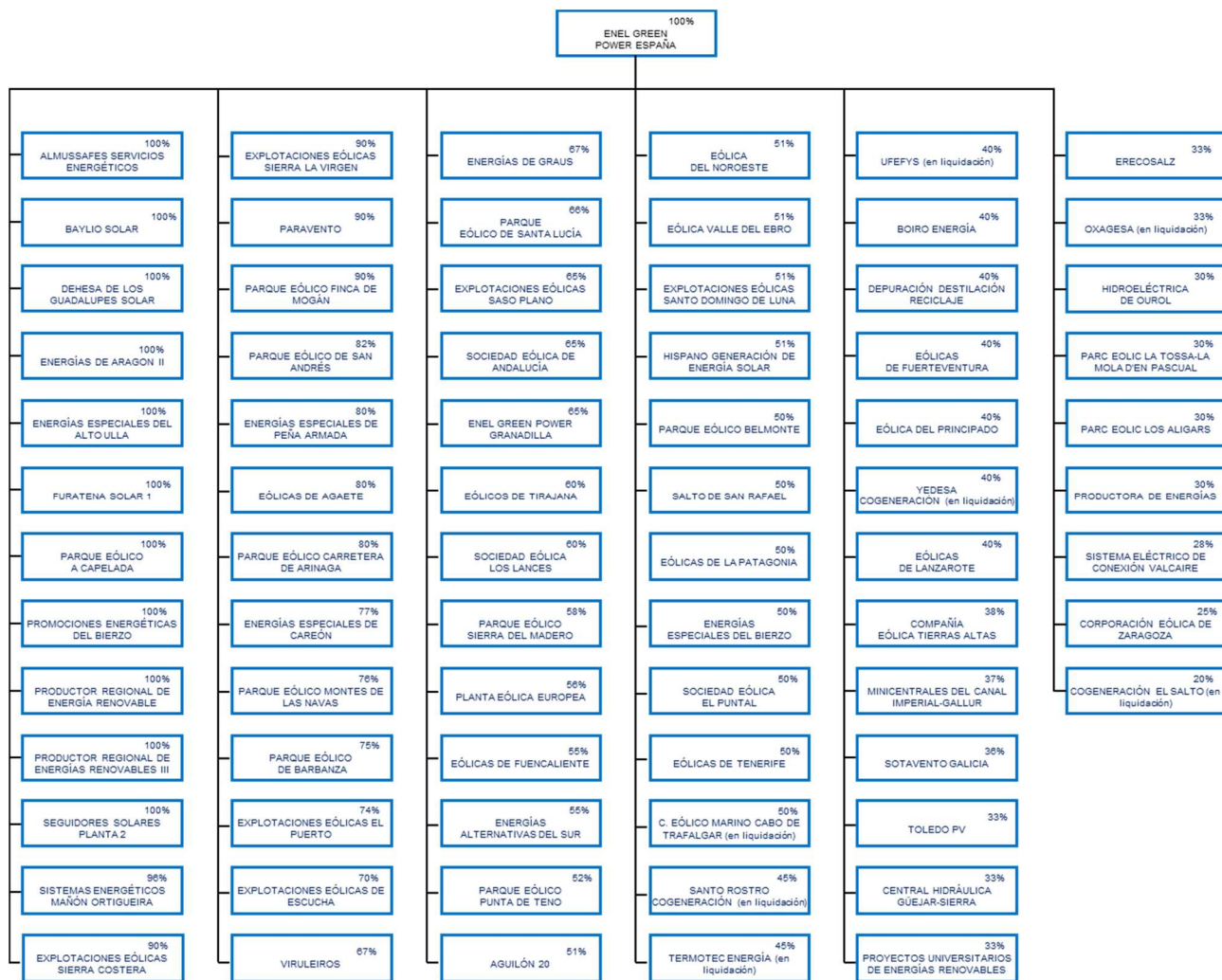
In 2017, ENDESA provided 96,513 GWh to 10.8 million supply points in the electricity market. ENDESA supplied total gas of 79,834 GWh in 2017, and at 31 December 2017, its customer portfolio in the conventional natural gas market was made up of 1.6 million supply points (see Section 2.6. Statistical Appendix to this Consolidated Management Report).

Appendix I to the Consolidated Financial Statements for the year ended 31 December 2017 lists ENDESA's subsidiaries and joint operation entities.

Appendix II to the Consolidated Financial Statements for the year ended 31 December 2017 lists ENDESA's associates and joint ventures.

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2017:





2. Business trends and results in 2017.

2.1. Consolidated results.

ENDESA reported net income of Euros 1,463 million in 2017 (+3.7%).

ENDESA reported net income of Euros 1,463 million in 2017, up by 3.7% against the Euros 1,411 million reported in 2016.

The table below shows the breakdown of net income in ENDESA's businesses in 2017 and changes with respect to the same period the previous year (see Section 2.3. Segment Information in this Consolidated Management Report):

		Net income			
		2017	2016	% Var.	% Contribution to Total
Generation and supply	(1)	263	751	(65.0)	18.0
Distribution		1,048	771	35.9	71.6
Structure and other	(2)	152	(111)	N/A	10.4
TOTAL		1,463	1,411	3.7	100.0

(1) In 2017 and 2016 includes net profit generated by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 51 million and Euros 38 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

2.2. Analysis of results.

The table below presents the detail of ENDESA main figures for 2017 and their variation compared with the previous year:

Millions of Euros		Main figures			
	2017	2016	Difference	%Var	
Revenue	20,057	18,979	1,078	5.7	
Contribution margin	5,488	5,652	(164)	(2.9)	
EBITDA ⁽¹⁾	3,542	3,432	110	3.2	
EBIT ⁽²⁾	2,031	1,965	66	3.4	
Net financial profit/(loss)	(123)	(182)	59	(32.4)	
Profit/(loss) before tax	1,900	1,710	190	11.1	
Net gain/(loss)	1,463	1,411	52	3.7	

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

(2) EBIT = EBITDA - Depreciation and amortisation, and impairment losses.

In 2017, EBITDA was Euros 3,542 million (+3.2%). The following factors must be taken into account concerning EBITDA for 2017:

- The estimate of income recognised for remuneration of distribution activity of in 2017 has been made bearing in the mind the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda, which had a positive impact of Euros 176 million on income for the period.
- Higher cost of energy purchases (+21.6%) primarily resulting from increased electricity prices on the wholesale market, whose cumulative arithmetic price was Euros 52.2/MWh (+31.6%).
- Increased fuel consumption (+38.9%) arising from greater thermal production in the period and higher fuel prices, together with the consequentially increased tax on the value of electricity production.
- The lower cost recognised for the Social Bonus for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings (see Section 3. Regulatory Framework in this Consolidated Management Report), which was collected in full at the date of preparation of this Consolidated Management Report.
- The provisions recognised within the framework of the various projects for optimising the workforce within the restructuring and reorganisation plan that is being carried out by ENDESA for the amount of Euros 19 million (Euros 226 million in 2016).
- The contribution by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million (Euros 75 million in 2016 since the takeover on 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

EBIT in 2017 climbed by 3.4% year-on-year to Euros 2,031 million as a result of:

- The increase of 3.2% in EBITDA.
- The re-evaluation realised of the useful service life of assets in operation, resulting in the modification of the depreciation policy for its hydropower, wind power and photovoltaic facilities, which in turn reduced the depreciation expense in the year by Euros 76 million.
- The contribution of the full consolidation of ENEL Green Power, S.L.U. (EGPE) for the amount of Euros 74 million, including the effect of changing the useful service life of the renewable plants mentioned in the previous paragraph (Euros 16 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

2.2.1. Revenue

In 2017, revenue totalled Euro 20,057 million, Euro 1,078 million (+5.7%) higher than in 2016.

The table below presents the detail of revenue in 2017 and their variation compared with the previous year:

Millions of Euros	Revenue ⁽¹⁾			
	2017	2016	Difference	%Var
Revenue from sales	19,556	18,313	1,243	6.8
Other operating income	501	666	(165)	(24.8)
TOTAL	20,057	18,979	1,078	5.7

(1) In 2017, includes revenue from ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 280 million (Euros 118 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Market situation.

In 2017, electricity demand trends were as follows:

- Total mainland electricity demand rose by 1.1% in 2017 against the previous year (+1.6% adjusted for working days and temperature).
- The electricity demand in Non-mainland Territories (TNP) closed out 2017 with a 3.5% increase in the Balearic Islands and a 2.1% increase in the Canary Islands compared with 2016 (+3.9% and +3.2% respectively, corrected for the effect of working days and temperature).

2017 saw higher prices, with the cumulative arithmetic price in the electricity wholesale market standing at Euros 52.2/MWh (+31.6%) mainly due to lower wind and hydroelectric output. The contribution of renewable energies to total mainland production was 38.7% in the year.

In this environment:

- ENDESA's mainland ordinary regime electricity output totalled 62,164 GWh in 2017, 11.0% higher than in 2016, as follows: combined cycle plants (+8,409 GWh, +118.0%), coal-fired plants (+22,303 GWh, +17.2%), nuclear power plants (+26,448 GWh, +2.0%) and hydroelectric power plants (+5,004 GWh, -30.2%).
- Nuclear and hydroelectric technologies accounted for 50.6% of ENDESA's mainland generation mix under the ordinary regime, compared with 49.4% for the rest of the sector (59.1% and 62.0% respectively in 2016).
- ENDESA's production in 2017 with renewable technologies other than hydro technology was 3,441 GWh.
- Non-mainland Territories generation (TNP) was 13,043 GWh (+3.2%).

At 31 December 2017, ENDESA held the following electricity market shares:

- 38.3% in ordinary mainland generation.
- 44.1% in electricity distribution.
- 35.4% in electricity sales to deregulated market customers.
- 3.6% in electricity generation using renewable technologies (excluding hydro).

In 2017 conventional gas demand was up by 5.1% year on year, and at 31 December 2017 ENDESA had secured a market share of 16.1% in gas sales to customers in the deregulated market.

Sales.

The table below presents the detail of sales in 2017 and their variation compared with the previous year:

	Sales ⁽¹⁾			
	2017	2016	Difference	%Var.
Electricity sales	14,451	13,541	910	6.7
Sales to the deregulated market	8,457	8,213	244	3.0
Supply to customers in deregulated markets outside Spain	1,076	961	115	12.0
Sales at regulated prices	2,460	2,412	48	2.0
Wholesale market sales	1,137	875	262	29.9
Compensation for Non-mainland Territories (TNP)	1,215	1,015	200	19.7
Other electricity sales	106	65	41	63.1
Gas sales	2,233	2,079	154	7.4
Regulated revenue from electricity distribution	2,231	2,054	177	8.6
Other sales and services rendered	641	639	2	0.3
TOTAL	19,556	18,313	1,243	6.8

(1) In 2017, includes the sales of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 270 million (Euros 118 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Electricity sales to deregulated market customers.

At 31 December 2017 ENDESA had 5,592,893 electricity customers in the deregulated market, a 3.1% increase on numbers at 31 December 2016:

- 4,600,951 (+2.1%) in the Spanish mainland market.
- 786,572 (+5.8%) in the Non-mainland Territories (TNP) market.
- 205,370 (+17.8%) in deregulated markets outside Spain.

ENDESA's net sales to these customers totalled in 83,594 GWh in 2017, a 4.9% increase on 2016.

In economic terms, sales on the deregulated market rose totalled Euros 9,533 million (+3.9%), with the following breakdown:

- Sales in the Spanish deregulated market totalled Euros 8,457 million in 2017, which is Euros 244 million more than the figure for 2016 (+3%) due mainly to the higher number of physical units sold.
- Revenue from sales to deregulated European markets other than Spain totalled Euros 1,076 million, up by Euros 115 million (+12%) vs. 2016, due mainly to the higher volume of electricity sold in Germany.

Electricity sales at regulated prices.

In 2017:

- ENDESA sold 12,919 GWh to customers via its supplier of reference under the regulated price, which is down 6.5% on 2016.
- These sales entailed an income of Euros 2,460 million in 2017, which is 2% higher than the figure in 2016 as a result of the increased average sales price, which offset the reduction in physical units sold.

Gas sales.

At 31 December 2017, ENDESA had 1,559,695 gas customers in the deregulated market, a 1.4% increase on numbers at 31 December 2016:

- 245,832 (-6.1%) in the regulated market.
- 1,313,863 (+3.0%) in the deregulated market.

ENDESA sold 79,834 GWh to customers in the natural gas market in 2017, which represents a 2.2% increase on the 2016 figure.

Revenue from gas sales totalled Euros 2,233 million in 2017, up Euros 154 million (+7.4%) on the 2016 figure, as follows:

- Sales in the deregulated market totalled Euros 2,150 million in 2017, which is Euros 154 million more than the figure for 2016 (+7.7%) due mainly to the higher number of physical units sold.
- Revenue from gas sales at the regulated price totalled Euros 83 million in 2017, in line with the figure in 2016 as a result of the increased sales price, which offset the reduction in physical units sold.

Compensation for Non-mainland Territories (TNP).

Compensation in 2017 for the extra-costs of Non-mainland Territories generation (TNP) totalled Euros 1,215 million, up by Euros 200 million (+19.7%) against 2016, due mainly to the rise in production and sales and the increase in fuel prices brought about by changing commodity prices.

Electricity distribution.

ENDESA distributed 117,961 GWh in the Spanish market in 2017, 2.0% more than the previous year.

Regulated revenue recognised for distribution in 2017 was Euros 2,231 million, Euros 177 million more than in 2016 (+8.6%) and was estimated bearing in the mind the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda (see Section 3. Regulatory Framework in this Consolidated Management Report).

Other operating income.

In 2017, other operating income totalled Euros 501 million, down Euros 165 million year on year (-24.8%).

In 2017, there was a reduction of Euros 175 (-54.0%) in revenue from the valuation and liquidation of fuel stock derivatives compared to the previous year, which is partly offset with less expenses from the valuation and liquidation of fuel stock derivatives of Euros 86 million (-32.0%) posted under "Other variable procurements and services", as a consequence, fundamentally, of the evolution of the valuation and liquidation of gas derivatives.

2.2.2. Operating expenses.

Operating expenses totalled Euros 18,248 million in 2017, 6.5% more than in 2016.

The table below presents the detail of operating expenses in 2017 and their variation compared with the previous year:

Millions of Euros					
	Operating expenses ⁽¹⁾				%Var
	2017	2016	Difference		
Procurements and services	14,569	13,327	1,242	9.3	
Fuel stock purchases	4,933	4,056	877	21.6	
Fuel consumption	2,294	1,652	642	38.9	
Transport costs	5,652	5,813	(161)	(2.8)	
Other variable procurements and services	1,690	1,806	(116)	(6.4)	
Personnel expenses	917	1,128	(211)	(18.7)	
Other fixed operating expenses	1,251	1,209	42	3.5	
Depreciation and amortisation, and impairment losses	1,511	1,467	44	3.0	
TOTAL	18,248	17,131	1,117	6.5	

(1) In 2017 this included the operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 206 million (Euros 102 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Procurements and services (variable costs).

Procurements and services (variable costs) totalled Euros 14,569 million in 2017, 9.3% more than in 2016.

The performance regarding these costs for the 2017 was:

- Energy purchases increased by Euros 877 million (+21.6%) to Euros 4,933 million, primarily because of the increase in the cumulative arithmetic price in the wholesale electricity market (Euros 52.2/MWh, +31.6%) and gas acquired for its sale to the end customer.
- The cost of the fuel consumed in 2017 was Euros 2,294 million, up 38.9% (Euros 642 million) due to the rise in thermal output in the period and the increase in the average purchase price.
- "Other variable procurements and services" totalled Euros 1,690 million, down Euros 116 million on 2016 (-6.4%), mainly due to:
 - o The lower cost recognised for the Social Bonus (or Social Tariff) for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings and the Spanish Markets and Competition Commission (CNMC) was ordered to pay the amounts paid by ENDESA, S.A. corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 3. Regulatory Framework in this Consolidated Management Report).
 - o The Euros 83 million increase in the electricity production tax due to the increased value of production during the period, of which Euros 11 million correspond to ENEL Green Power España, S.L.U. (EGPE).
 - o The decrease of Euros 86 million (-32.0%) in expenses relating to energy derivatives, offset in part by a Euros 175 million decrease in income in this connection (-54.0%), which is recognised under "Other operating income", mainly due to changes in the valuation and settlement of gas derivatives.
 - o A rise of Euros 63 million in nuclear tax charges implemented by the Catalonia Autonomous Community, bearing in mind that in 2016 this included regularisation of the tax in force at that time for the amount of Euros 63 million in the wake of the Constitutional Court ruling on 20 April 2016 declaring it to be unconstitutional.
 - o The Euros 26 million increase in the costs of carbon dioxide (CO₂) emission rights, mostly because of greater thermal production.

Personnel and other fixed operating expenses (fixed costs).

Fixed costs totalled Euros 2,168 million in 2017, down Euros 169 million year on year, a decrease of 7.2%.

The table below presents the detail of fixed costs in 2017 and their variation compared with the previous year:

Millions of Euros	Fixed costs ⁽¹⁾			
	2017	2016	Difference	%Var
Personnel expenses	917	1,128	(211)	(18.7)
Other fixed operating expenses	1,251	1,209	42	3.5
TOTAL	2,168	2,337	(169)	(7.2)

(1) In 2017, this includes fixed costs from ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 75 million (Euros 29 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Personnel expenses.

Personnel expenses totalled Euros 917 million in 2017, down Euros 211 million (-18.7%) compared to 2016. The following effects should be considered when examining personnel expenses during 2017:

- Provisions of Euros 19 million and Euros 226 million were recognised for voluntary departure agreements in 2017 and 2016, respectively.
- Updates of provisions for workforce restructuring and contract suspension for Euros 27 million in 2017 and Euros 17 million in 2016.

- Net provisions for indemnities and occupational risks for Euros 3 million in 2017, positive, and Euros -14 million in 2016, negative.
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 15 million in 2017 and Euros 7 million in 2016 (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Stripping out these effects, personnel expenses would have increased by Euros 15 million (+1.7%) in 2017 due mainly to the inclusion of 319 employees of the systems and telecommunications activity (ICT) (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT)).

Other fixed operating expenses.

Other fixed operating expenses in 2017 stood at Euros 1,251 million, up by Euros 42 million year on year (+3.5%).

Stripping out the inclusion of ENEL Green Power España, S.L.U. (EGPE) in both years, for the amount of Euros 60 million and Euros 22 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report), other fixed operating costs would have grown by Euros 4 million year on year (+0.3%) due mainly to higher taxes other than income tax (Euros 18 million).

Depreciation/amortisation and impairment losses.

Depreciation and amortisation charges and impairment losses totalled Euros 1,511 million in 2017, up Euros 44 million (+3%) compared to 2016. The following factors must be taken into account when looking at depreciation and amortisation charges for 2017:

- In 2017, ENDESA concluded its analysis on the useful service life of its assets in operation. As a result thereof and in light of the current circumstances, the depreciation policy has been amended as follows:
 - The best current useful service life estimate of wind and solar power facilities was extended to 30 years from the previously considered 25 and 20 years respectively.
 - Regarding hydroelectric power plants, depreciation of the civil engineering cost will now be over a term of 100 years and the electromechanical equipment thereof will be over 50 years (initially 65 and 35 years respectively), both with the limit on the concession term.

Effective as of 1 January 2017, both measures have had a favourable impact on the depreciation expense in 2017 of Euros 34 million and Euros 42 million, respectively.

- In 2017 a net provision for asset impairment losses of Euros 21 million was reversed, of which Euros 14 million were accounted for by reversals of provisions made in previous years in respect of certain land assets (net provision for asset impairment of Euros 17 million in 2016).
- Both years include the impact of the inclusion of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 107 million, including the effect of changing the useful service life of renewable plants mentioned in the previous paragraphs, and Euros 59 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Without considering the impacts described above, depreciation and amortisation and impairment losses in 2017 would have increased by Euros 76 million (5.5%) primarily as a result of the net impairment allowance for trade bad debts

2.2.3. Net financial profit/(loss).

Net financial income reported for 2017 was a negative Euros 123 million, a year-on-year decrease of Euros 59 million (-32.4%).

The table below presents the detail of net financial income in 2017 and its variation compared with the previous year:

Millions of Euros

	Net financial profit/(loss) ⁽²⁾			
	2017	2016	% Var.	% Contribution to Total
Financial income	51	44	15.9	(41.5)
Financial expenses	(178)	(222)	(19.8)	144.7
Net exchange differences	4	(4)	(200.0)	(3.2)
TOTAL	(123)	(182)	(32.4)	100.0

(1) 2017 includes the net financial profit/(loss) of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 2 million, positive, (Euros 1 million, positive, in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Net financial profit/(loss) = Financial income - Financial expense + Net exchange differences.

In 2017 net financial expenses totalled Euros 127 million, down Euros 51 million (-28.7%) year on year. The following effects should be considered when examining net financial expenses in 2017:

- Movements in long-term interest rates in both 2017 and 2016 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and for suspension agreements for the sums of Euros 4 million (positive) and Euros 55 million (negative), respectively.
- In 2017 financial expenses of Euros 15 million were recognised in relation to various rulings with respect to the Social Bonus (see Section 3. Regulatory Framework in this Consolidated Management Report).
- In 2016, Euros 12 million were recognised for financial income associated with the adjustment of interest for financing the deficit of income in regulated activities in Spain.
- In 2017, net financial expenses also include the effect of incorporating ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 2 million, positive (Euros 1 million, positive, in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Stripping out the impacts described above, net financial expenses in 2017 would have increased by Euros 12 million (+8.8%) due to the following factors:

- The lower average cost of gross financial debt, which fell from 2.5% in 2016 to 2.1% in 2017 (see section 4.1. Financial Management in this Consolidated Management Report).
- The higher average gross financial debt in both periods, rising from Euros 5,191 million in 2016 to Euros 6,082 million in 2017.

2.2.4. Net income of companies accounted for using the equity method.

In 2017, companies accounted for using the equity method contributed a net loss of Euros 15 million, compared to the net loss of Euros 59 million in 2016.

In 2017 and 2016 this heading includes a negative impact of Euros 48 million and Euros 38 million, respectively, relating to the 50% stake in Nuclenor, S.A. following the recognition of a provision to cover the estimated additional cost for the company of the pre-dismantling of the Santa María de Garoña nuclear plant (see Note 11.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

Further, in 2016, this heading mainly included the net profit/(loss) contributed by the 40% holding in ENEL Green Power España, S.L.U. (EGPE) prior to the takeover date on 27 July 2016, in the amount of Euros 69 million, broken down as follows:

- Euros 7 million in respect of net income generated previously by the 40% stake in the company up to the takeover date.
- A negative Euros 72 million booked for impairment prior to the takeover, in due consideration of the fact that the recovery value of the previous 40% stake in the company was lower than the carrying amount.
- A negative Euros 4 million in respect of the net income obtained from the appraisal of the previous 40% stake at fair value on the purchase date.

Following the takeover of ENEL Green Power España, S.L.U. (EGPE), after 27 July 2016 the equity method was no longer used to account for ENEL Green Power España, S.L.U. (EGPE), and the full consolidation method was used instead (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

2.2.5. Income from asset sales.

The main transactions carried out in 2017 were as follows:

- On 30 June 2017, ENDESA sold its holdings in Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L. The total price agreed for the transaction was Euros 16 million, generating a gross gain of Euros 4 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- On 28 December 2017, ENDESA sold its 60% holding in the share capital of Nueva Marina Real Estate, S.L. The sale was carried out at the price of Euros 20 million, generating a gross capital gain of Euros 9 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- Gross gains on the sale of land and other assets amounting to Euros 7 million.
- Fee and commission expense for factoring transactions of Euros 27 million (Euros 25 million in 2016).

2.2.6. Income tax.

Expenditure on income tax in 2017 stood at Euros 427 million, an increase of Euros 129 million year on year (+43.3%).

The effective rate in 2017 was 22.5% (17.4% in 2016).

In 2016, following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

In like-for-like terms, stripping out the impacts referred to in the preceding paragraph, income tax expense would have increased by Euros 48 million (+12.7%) year on year.

2.2.7. Net profit/(loss).

Net profit attributable to the parent company in 2017 stood at Euros 1,463 million, an increase of Euros 52 million year on year (+3.7%).

2.3. Segment Information.

Segment information is included in Note 34 to the Consolidated Financial Statements for the year ended 31 December 2017.

The table below presents the detail of ENDESA main figures for 2017 and their variation compared with the previous year:

Millions of Euros

	2017				2016			
	Generation and supply	Distribution	Structure and other (3)	TOTAL	Generation and supply	Distribution	Structure and other (3)	TOTAL
Revenue	17,509	2,750	(202)	20,057	16,628	2,538	(187)	18,979
Contribution margin	2,784	2,590	114	5,488	3,344	2,399	(91)	5,652
EBITDA (1)	1,350	2,050	142	3,542	1,850	1,788	(206)	3,432
EBIT (2)	488	1,453	90	2,031	1,065	1,131	(231)	1,965
Net financial profit/(loss)	(132)	(96)	105	(123)	(154)	(123)	95	(182)
Profit/(loss) before tax	314	1,379	207	1,900	822	1,020	(132)	1,710
Net profit/(loss)	263	1,048	152	1,463	751	771	(111)	1,411

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

(2) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and impairment losses.

(3) Structure, services and Adjustments.

2.3.1. Contribution margin.

The table below presents the distribution of the sales and other operating income among ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros

	Sales				Other operating income			
	2017	2016	% Var.	% Contribution to Total	2017	2016	% Var.	% Contribution to Total
Generation and supply	17,223	16,190	6.4	88.1	286	438	(34.7)	57.1
Non-mainland Territories generation (TNP)	1,943	1,638	18.6	9.9	9	9	-	1.8
Other generation and supply	(1) 16,204	15,325	5.7	82.9	277	429	(35.4)	55.3
Adjustments	(924)	(773)	19.5	(4.7)	-	-	-	-
Distribution	2,492	2,268	9.9	12.7	258	270	(4.4)	51.5
Structure and other	(2) (159)	(145)	9.7	(0.8)	(43)	(42)	2.4	(8.6)
TOTAL	19,556	18,313	6.8	100.0	501	666	(24.8)	100.0

(1) In 2017, this included sales and other operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 270 million and Euros 10 million respectively (Euros 118 million in sales in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

The following table contains the breakdown of procurements and services between ENDESA's businesses in 2017 and variations compared with the previous year:

Millions of Euros

	Procurements and services (3)			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	14,725	13,284	10.8	101.1
Non-mainland Territories generation (TNP)	1,258	1,009	24.7	8.6
Other generation and supply	(1) 14,385	13,043	10.3	98.8
Adjustments	(918)	(768)	19.5	(6.3)
Distribution	160	139	15.1	1.1
Structure and other	(2) (316)	(96)	229.2	(2.2)
TOTAL	14,569	13,327	9.3	100.0

(1) In 2017, this includes the procurements and services of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 24 million (Euros 14 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Procurements and services = Energy purchases + Fuel consumption + Transport costs + Other variable procurements and services.

The breakdown of the contribution margin in ENDESA's businesses in 2017 and variations compared to the previous year are as follows:

Millions of Euros

	Contribution margin ⁽³⁾			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	2,784	3,344	(16.7)	50.7
Non-mainland Territories generation (TNP)	694	638	8.8	12.6
Other generation and supply ⁽¹⁾	2,096	2,711	(22.7)	38.2
Adjustments	(6)	(5)	-	(0.1)
Distribution	2,590	2,399	8.0	47.2
Structure and other ⁽²⁾	114	(91)	N/A	2.1
TOTAL	5,488	5,652	(2.9)	100.0

(1) In 2017 this included the contribution margin by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 256 million (Euros 104 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Contribution margin = Income - Procurements and services.

Generation and Supply

The contribution margin in the Generation and Supply segment in 2017 totalled Euros 2,784 million in 2017, down Euros 560 million year on year, a decrease of 16.7%, due mainly to the following factors:

- Increased electricity prices on the wholesale market (Euros 52.2/MWh; +31.6%) and the subsequent rise in power purchase costs (+21.7%).
- Greater thermal production in the period and higher fuel prices, which caused a rise in fuel consumption (+38.9%), higher tax on the value of electricity generation (Euros 83 million, of which Euros 11 million correspond to ENEL Green Power Spain, S.L.U. (EGPE)) and higher costs of carbon dioxide (CO₂) emission rights (Euros 26 million).
- A rise of Euros 63 million in nuclear tax charges implemented by the Catalonia Autonomous Community, due to the regularisation carried out in 2016 of the tax in force at that time after it was declared to unconstitutional.
- Changes in the valuation and settlement of derivatives, mainly gas derivatives, which caused a decrease in energy derivatives costs (Euros 86 million), partly offset by the reduction in income for this concept (Euros 175 million).
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 256 million (Euros 104 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Distribution.

The contribution margin in the Distribution segment in 2017 totalled Euros 2,590 million in 2017, up Euros 191 million year on year (+8%) due mainly to the estimate of income recognised for the remuneration of distribution 2017.

This estimate was made considering the draft Ministerial Order being processed by the Ministry of Energy, Tourism and Digital Agenda, which had a positive impact of Euros 176 million on income for the period (see Section 3. Regulatory Framework in this Consolidated Management Report).

Structure and Other.

The contribution margin for Structure and Other totalled Euros 114 million in 2017, up Euros 205 million year on year.

This variation is mainly the result of the lower cost recognised for the Social Bonus for the amount Euros 222 million, under Order ETU/929/2017, of 28 September, and Order ETU/1288/2017, of 22 December, implementing the different corresponding rulings and ordering the Spanish Markets and Competition Commission (CNMC) to pay in full the amounts paid by ENDESA, S.A. corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 3. Regulatory Framework in this Consolidated Management Report).

2.3.2. EBITDA.

The table below presents the EBITDA of ENDESA's businesses in 2017 and variations compared with the previous year:

	EBITDA ⁽³⁾			
	2017	2016	% Var.	% Contribution to total
Generation and supply	1,350	1,850	(27.0)	38.1
Non-mainland Territories generation (TNP)	452	389	16.2	12.8
Other generation and supply ⁽¹⁾	898	1,461	(38.5)	25.3
Adjustments	-	-	-	-
Distribution	2,050	1,788	14.7	57.9
Structure and other ⁽²⁾	142	(206)	N/A	4.0
TOTAL	3,542	3,432	3.2	100.0

(1) In 2017, this includes the EBITDA generated by ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million (Euros 75 million in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, Services and Adjustments.

(3) Gross operating profit (EBITDA) = Income - Supplies and services + Work carried out by the Group for its assets - Personnel expenses - Other operating expenses.

The following table contains the breakdown of personnel expenses and other fixed operating expenses for ENDESA's businesses in 2017 and variations compared with the previous year:

	Personnel expenses				Other fixed operating expenses			
	2017 ⁽³⁾	2016	% Var.	% Contribution to Total	2017 ⁽³⁾	2016	% Var.	% Contribution to Total
Generation and supply	470	544	(13.6)	51.3	965	958	0.7	77.1
Non-mainland Territories generation (TNP)	84	91	(7.7)	9.2	159	160	(0.6)	12.7
Other generation and supply ⁽¹⁾	386	453	(14.8)	42.1	812	804	1.0	64.9
Adjustments	-	-	-	-	(6)	(6)	-	(0.5)
Distribution	255	321	(20.6)	27.8	394	396	(0.5)	31.5
Structure and other ⁽²⁾	192	263	(27.0)	20.9	(108)	(145)	(25.5)	(8.6)
TOTAL	917	1,128	(18.7)	100.0	1,251	1,209	3.5	100.0

(1) In 2017, this included personnel expenses and other fixed operating expenses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 15 million and Euros 60 million respectively (Euros 7 million and Euros 22 million respectively in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

(3) Adjusted the amount of Work carried out by the Group for its assets under the headings Personnel Expenses and Other Fixed Operating Expenses for the amount of Euros 20 million and Euros 68 million, respectively, as a result of the acquisition of the systems and telecommunications activity (ICT) (see section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

Generation and Supply segment.

In 2017, EBITDA for this segment was Euros 1,350 million (+27.0%). The following factors must be taken into account when looking at EBITDA for 2017:

- The 16.7% in the contribution margin.
- Provisions of Euros 5 million and Euros 74 million recognised for voluntary departure agreements in 2017 and 2016, respectively.
- Updates of provisions for workforce restructuring and contract suspension agreements in both years for Euros 10 million and Euros 3 million respectively.
- The incorporation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 181 million and Euros 75 million, respectively (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

Distribution segment.

In 2017, EBITDA for this segment was Euros 2,050 million (+14.7%), including:

- The positive performance of the contribution margin (+8%) due to the estimate of income recognised for the remuneration of distribution for 2017 (see Section 3. Regulatory Framework in this Consolidated Management Report).

- The reduction in personnel expenses in 2017 (-20.6%) due to the reduction of the average workforce in the business unit (-8.8%), the Euros 57 million decrease in the provisions for workforce optimisation projects and their updates (Euros 2 million and Euros 12 million, respectively).
- The containment of other fixed operating expenses in 2017 (-0.5%) due to the projects underway to improve quality and efficiency.

Structure and Other.

In 2017, EBITDA for the Structure and Other was Euros 142 million, including:

- The positive performance of the contribution margin, which increased by Euros 205 million due to the lower expense recognised for the Social Bonus (see Section 3. Regulatory Framework in this Consolidated Management Report).
- The provisions recognised in 2017 and 2016 for the different workforce optimisation plans (Euros 14 million and Euros 95 million, respectively), and the updates made for both years (Euros 15 million and Euros 2 million, respectively).

2.3.3. EBIT.

The table below presents the EBIT of ENDESA's business units in 2017 and variations compared with the previous year:

Millions of Euros		EBIT ⁽³⁾			
		2017	2016	% Var.	% Contribution to Total
Generation and supply		488	1,065	(54.2)	24.0
Non-mainland Territories generation (TNP)		285	246	15.9	14.0
Other generation and supply	(1)	203	819	(75.2)	10.0
Adjustments		-	-	-	-
Distribution		1,453	1,131	28.5	71.5
Structure and other	(2)	90	(231)	(139.0)	4.5
TOTAL		2,031	1,965	3.4	100.0

(1) In 2017, this includes the EBIT generated by ENEL Green Power España, S.L.U (EGPE) for the amount of Euros 74 million (Euros 16 million in 2016 from the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, Services and Adjustments.

(3) EBIT = EBITDA - Depreciation and amortisation and impairment losses.

Generation and Supply segment.

In 2017, EBIT for the Generation and Supply segment was Euros 488 million (-54.2%), including among others:

- The decrease of 27% in EBITDA.
- The Euros 76 million reduction in the depreciation and amortisation expense due to the modification of estimated useful lives of hydro, wind power and solar power facilities.
- The contribution of the full consolidation of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 74 million, including the effect of changing the useful service life of the renewable plants mentioned in the previous paragraph (Euros 16 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- The Euros 59 million increase in the net impairment allowance for trade bad debts.

Distribution segment.

EBIT for the Distribution segment in 2017 grew by Euros 322 million year-on-year (+28.5%), mainly as a result of the 14.7% rise in EBITDA.

This performance includes a variation of Euros 43 million relating to net impairment allowances for land arising from appraisals performed by third parties.

Structure and Other.

EBIT for the Structure and Other totalled Euros 321 million in 2017, up by Euros 321 million against the previous year. This performance includes:

- The Euros 348 million rise in EBITDA.
- The Euros 18 million increase (+83.3%) in the depreciation and amortisation charge due to the inclusion of the systems and telecommunications activity (ICT) (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

The breakdown of depreciation and impairment losses in ENDESA's businesses in 2017 and the year-on-year change are as follows:

Millions of Euros				
	Depreciation and amortisation, and impairment losses			
	2017	2016	% Var.	% Contribution to Total
Generation and supply	862	785	9.8	57.1
Non-mainland Territories generation (TNP)	167	143	16.8	11.1
Other generation and supply (1)	695	642	8.3	46.0
Adjustments	-	-	-	-
Distribution	597	657	(9.1)	39.5
Structure and other (2)	52	25	108.0	3.4
TOTAL	1,511	1,467	3.0	100.0

(1) In 2017 this includes the depreciation and amortisation and impairment losses of ENEL Green Power España, S.L.U. (EGPE) for the amount of Euros 107 million (Euros 59 million in 2016 since the takeover date of 27 July 2016) (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

(2) Structure, services and adjustments.

2.4. Consolidation scope.

Eléctrica de Jafre, S.A.

On 31 May 2017 ENDESA Red, S.A.U. acquired 52.54% of the share capital of Eléctrica de Jafre, S.A., whose activity entails electricity transmission and distribution, and the lease and reading of water and electricity meters. ENDESA Red, S.A.U. previously held 47.46% in this company. As a result of this transaction ENDESA went from having significant influence to full control of Eléctrica de Jafre, S.A. thereby strengthening its distribution activity (see Note 5.2 of the Notes to the Consolidated Financial Statements for the year ended 31 December 2017).

The net cash outflow arising from the acquisition of Eléctrica de Jafre, S.A. amounted to Euros 1 million, corresponding mainly to the price agreed in the transaction.

The purchase price was finally assigned, on the basis of the fair value of the assets acquired and the liabilities undertaken (Net Assets Acquired) from Eléctrica de Jafre, S.A., under the following headings in the Consolidated Financial Statements:

Millions of Euros	
	Fair Value
Non-current assets	4
Property, plant & equipment	4
TOTAL ASSETS	4
Non-current liabilities	1
Deferred income	1
Current liabilities	1
Trade and other payables	1
TOTAL LIABILITIES	2
Fair value of net assets acquired	2

When determining the fair value of the assets acquired and the liabilities assumed, the expected discounted cash flows were taken into consideration in line with the remuneration system in force at the acquisition date.

In 2017, ordinary income and profit after taxes generated by the company from the acquisition date of 31 May 2017 were insignificant. Additionally, had the acquisition taken place on 1 January 2017, ordinary income and profit after taxes generated from this transaction during 2017 would have amounted to less than Euros 1 million.

The net gain at the date control was obtained from the measurement at fair value of the previously held non-controlling interest of 47.46% in Eléctrica de Jafre, S.A. was less than Euros 1 million.

Corporate transactions related to capacity awarded in renewable power auctions.

As a result of the capacity auctions, which took place on 17 May 2017 and 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE) was awarded 540 MW of wind capacity and 339 MW of photovoltaic capacity, respectively (see Notes 3 and 4.5), formalised through the following corporate transactions (see Section 3. Regulatory Framework and 4.5.: Investments in this Consolidated Management Report):

- Formation, on 2 November 2017, of a new company called Explotaciones Eólicas Santo Domingo de Luna, S.A. (wind technology) with a percentage stake of 51%.
- Acquisition of the following companies:

	Acquisition date	Technology	Percentage stake at 31 December 2017
			Control
Seguidores Solares Planta 2, S.L.U.	23 November 2017	Photovoltaic	100.00
Baylio Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Dehesa de los Guadalupes Solar, S.L.U.	15 December 2017	Photovoltaic	100.00
Furatena Solar 1, S.L.U.	15 December 2017	Photovoltaic	100.00

The price agreed for all these transactions was Euros 5 million, with a total net cash outflow of Euros 1 million (see Note 5.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

ENDESA has recognised the acquisition of these companies as a business combination, and using the acquisition method, has definitely recognised the acquired assets and assumed liabilities (net acquired assets) of each one at fair value on its acquisition date under the following income statement headings:

Millions of Euros		Fair value
Non-current assets		6
Property, plant & equipment		6
TOTAL ASSETS		6
Non-current liabilities		1
Deferred tax liabilities		1
TOTAL LIABILITIES		1
Fair value of net assets acquired		5

Both the newly formed company and the acquired companies are currently applying for permits and licences to carry out their projects. Therefore, construction work has not yet started on the renewable energy facilities, and no revenue has been generated since the acquisition/formation date.

Other investments.

On 30 June 2017, ENDESA sold its holdings in Aquilae Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L. The transaction generated a gross gain of Euros 4 million on the 2017 Consolidated Income Statement (see Section 2.2.5. Gains/(losses) on disposal of assets in this Consolidated Management Report and Note 2.5 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 18 July 2017, ENEL Green Power España, S.L.U. (EGPE) completed the purchase of non-controlling interests in Productor Regional de Energía Renovable, S.A. (15%) and Productor Regional de Energías Renovables III, S.A. (17.11%) for the amount of Euros 2 million and Euros 3 million, respectively. The transaction, which had no impact on the Consolidated Income Statement, had an effect of Euros 3 million on Equity (see Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 4 August 2017, the dissolution of the Minas de Estercuel, S.A. (in liquidation) and Minas Gargallo, S.L. (in liquidation) in which ENDESA held stakes of 99.65% and 99.91%, respectively was registered with the Companies Register (see Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 28 December 2017, ENDESA sold its 60% holding in the share capital of Nueva Marina Real Estate, S.L. The transaction generated a gross gain of Euros 9 million on the 2017 Consolidated Income Statement (see Section 2.2.5. Gains/(losses) on disposal of assets in this Consolidated Management Report and Note 2.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

ENEL Green Power España, S.L.U. (EGPE).

On 27 July 2016, ENDESA Generación S.A.U., a company fully owned by ENDESA S.A., acquired from ENEL Green Power International B.V. 60% of the share capital of ENEL Green Power España, S.L.U. (EGPE), thus increasing its previous stake in share capital from 40%.

On the date of execution of the purchase, ENDESA assumed control over ENEL Green Power España, S.L.U. (EGPE) compared to the significant influence that it had previously held.

At 31 December 2017, one year after the purchase of ENEL Green Power España, S.L.U. (EGPE), the business combination has been recognised following completion in 2017 of the measurement of its assets, liabilities and contingent liabilities at fair value once the final conclusions concerning the appraisal of certain compensatory assets and contingent liabilities had been obtained (see Notes 5.4 and 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

Using the acquisition method, the acquired assets and assumed liabilities (net acquired assets) of ENEL Green Power España, S.L.U. (EGPE) have been recognised at fair value at the acquisition date under the following headings of the Consolidated Financial Statements:

Millions of Euros

	Provisional fair value	Valuation adjustments in the period	Definitive fair value
Non-current assets	2,328	(2)	2,326
Property, plant & equipment	1,248	-	1,248
Intangible assets	757	-	757
Investments accounted for using the equity method	34	-	34
Non-current financial assets	252	(2)	250
Deferred tax assets	37	-	37
Current assets	143	-	143
Inventories	29	-	29
Trade and other receivables	70	-	70
Current financial assets	13	-	13
Cash and cash equivalents	31	-	31
TOTAL ASSETS	2,471	(2)	2,469
NON-CONTROLLING INTERESTS	148	-	148
Non-current liabilities	445	(4)	441
Deferred income	9	-	9
Non-current provisions	55	(4)	51
Provisions for pensions and similar obligations	2	-	2
Other non-current provisions	53	(4)	49
Non-current interest-bearing loans and borrowings	141	-	141
Other non-current Liabilities	9	-	9
Deferred tax liabilities	231	-	231
Current liabilities	164	-	164
Current interest-bearing loans and borrowing	86	-	86
Trade and other payables	78	-	78
TOTAL LIABILITIES	609	(4)	605
Fair value of net assets acquired ⁽¹⁾	1,714	2	1,716

(1) The main revalued assets belong to the category of Intangible Assets (see Note 8 to the Consolidated Financial Statements for the year ended 31 December 2017).

The difference between the cost of the business combination and the fair value of the assets and liabilities booked as indicated above, in due consideration of the fair value of the previous 40% stake in ENEL Green Power España, S.L.U. (EGPE), generated goodwill in the amount of Euros 296 million.

As a result of the takeover, the Consolidated Income Statement for 2017 includes the income and expenses of ENEL Green Power España, S.L.U. (EGPE).

The contribution of ENEL Green Power España, S.L.U. (EGPE) to net profit in 2017 was Euros 51 million (Euros 38 million in 2016), broken down as follows:

Millions of Euros	2017	2016
Revenue	280	118
Contribution margin	256	104
EBITDA ⁽¹⁾	181	75
EBIT ⁽²⁾	74	16
Net financial profit/(loss)	2	1
Net Profit/(loss) of companies accounted for using the equity method and other investments	5	(65) ⁽³⁾
Income tax expense	(20)	87 ⁽⁴⁾
Non-Controlling Interests	(10)	(1)
TOTAL	51	38

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

(2) EBIT = EBITDA - Depreciation and amortisation and impairment losses.

(3) Includes mainly net profit/loss relating to the 40% stake previously-held by ENDESA, S.A. through ENDESA Generación, S.A.U. until the date that control was obtained (Euros 7 million), impairment recognised prior to the date that control was obtained, bearing in mind that the recoverable value of the 40% stake in ENEL Green Power España, S.L.U. (EGPE) was lower than its carrying amount (Euros 72 million), and net profit at the takeover date, as a result of the fair value measurement of the non-controlling 40% stake in ENEL Green Power España, S.L.U. (EGPE) (Euros -4 million).

(4) Following the takeover of ENEL Green Power España, S.L.U. (EGPE), there was a reversal of deferred tax liabilities in the amount of Euros 81 million booked by ENDESA as a result of gains not distributed by ENEL Green Power España, S.L.U. (EGPE) that were generated after control of the company was lost in 2010, and which met the requirements for recognition.

In 2017 and 2016 the main figures for ENEL Green Power España, S.L.U. (EGPE) are as follows:

	Main figures of ENEL Green Power España, S.L.U. (EGPE)	
	2017	2016
Electricity generation (GWh)	3,441	1,212 ⁽¹⁾
Gross installed capacity (MW) ⁽²⁾	1,675	1,675
Net Installed capacity (MW) ⁽²⁾	1,675	1,675
Electricity sales (GWh)	3,441	1,212 ⁽¹⁾

(1) From the takeover date of 27 July 2016.

(2) At 31 December.

2.5. Acquisition of the systems and telecommunications activity (ICT).

On 29 December 2016, ENDESA, S.A., acting through its fully owned subsidiary ENDESA Medios y Sistemas, S.L.U., and ENEL Iberia, S.L.U. entered into an Assignment Contract for the IT and Telecommunications Activity so that the latter may acquire the ICT activities within the ENDESA sphere (see Note 5.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

The operation entailed the transfer of materials, human resources and contracts with third parties affected in the implementation of these activities.

The effective date of the transaction was 1 January 2017 and entailed a reorganisation of systems and telecommunications support activities at ENDESA to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying internal procedures and administrative management.

The price stipulated for purchasing this activity was Euros 246 million, which was paid on the date when the contract was formalised. The transaction was recognised through the acquisition method, with definitive allocation to the following items in the Consolidated Financial Statements:

Millions of Euros

	Fair value
Non-current assets	95
Property, plant & equipment	64
Intangible assets	30
Non-current financial assets	1
TOTAL ASSETS	95
Non-Current liabilities	8
Non-current provisions	8
Current liabilities	2
Trade and other payables	2
TOTAL LIABILITIES	10
Fair value of net assets acquired	85

The difference between the cost of the business combination and the fair value of the recognised assets and liabilities indicated above gave rise a goodwill of Euros 161 million from the expected synergies to be obtained in the operation based on aspects such as the prospects of greater autonomy for ENDESA in the future management of ICT activities, simplification and improvement of operations and management and a reduction in expected costs.

The fair value of the acquired assets and assumed liabilities was determined by discounting the free cash flows on the basis of the business plan and the trend of the systems and telecommunications (ICT) sector.

In 2017, the systems and telecommunications activity (ICT) contributed Euros 30 million to EBITDA and Euros 12 million to EBIT.

2.6. Statistical Appendix

Key figures.

GWh

Electricity generation	(1)	2017	2016	% Var.
Mainland		62,164	55,985	11.0
Nuclear		26,448	25,921	2.0
Coal		22,303	19,033	17.2
Hydroelectric		5,004	7,173	(30.2)
Combined cycle (CCGT)		8,409	3,858	118.0
Non-mainland Territories generation (TNP)		13,043	12,634	3.2
Renewables and cogeneration		3,441	1,212 (2)	183.9
TOTAL		78,648	69,831	12.6

(1) At busbar cost.

(2) Corresponding to energy generated by ENEL Green Power España, S.L.U. (EGPE) since the date of the takeover, 27 July 2016 (see Section 2.4. Consolidation Scope in this Consolidated Management Report).

MW

Gross installed capacity	31 December 2017	31 December 2016	% Var.
Hydroelectric	4,752	4,765	(0.3)
Conventional thermal	8,130	8,130	-
Nuclear	3,443	3,443	-
Combined cycle (CCGT)	5,678	5,678	-
Renewables and cogeneration	1,675	1,675	-
TOTAL	23,678	23,691	(0.1)

MW

Net installed capacity	31 December 2017	31 December 2016	% Var.
Hydroelectric	4,709	4,721	(0.3)
Conventional thermal	7,585	7,585	-
Nuclear	3,318	3,318	-
Combined cycle (CCGT)	5,445	5,445	-
Renewables and cogeneration	1,675	1,675	-
TOTAL	22,732	22,744	(0.1)

GWh

Other gross electricity sales	(1)	2017	2016	% Var.
Reference supply		15,263	16,297	(6.3)
Deregulated market		91,487	87,343	4.7
TOTAL		106,750	103,640	3.0

(1) At busbar cost.

GWh

Other net electricity sales	(1)	2017	2016	% Var.
Reference supply		12,919	13,815	(6.5)
Deregulated market		83,594	79,675	4.9
TOTAL		96,513	93,490	3.2

(1) Sales to end customers.

Thousands

Number of customers (electricity)	(1)	31 December 2017	31 December 2016	% Var.
Regulated market		5,255	5,593	(6.0)
Mainland Spain		4,416	4,692	(5.9)
Non-mainland Territories generation (TNP)		839	901	(6.9)
Deregulated market		5,593	5,423	3.1
Mainland Spain		4,601	4,505	2.1
Non-mainland Territories generation (TNP)		787	744	5.8
Outside Spain		205	174	17.8
TOTAL		10,848	11,016	(1.5)

(1) Supply points.

Percentage (%)

Electricity demand trend	(1)	2017	2016
Mainland	(2)	1.1	0.6
Non-mainland Territories generation (TNP)	(3)	2.6	1.0

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

(2) Adjusted for working days and temperature: +1.6% in 2017 and -0.1% in 2016.

(3) Adjusted for working days and temperature: +3.4% in 2017 and +0.8% in 2016.

GWh

Energy distributed	(1)	2017	2016	% Var.
Spain and Portugal		117,961	115,602	2.0

(1) At busbar cost.

km

Distribution and transmission networks		31 December 2017	31 December 2016	% Var.
Spain and Portugal		317,782	316,562	0.4

Percentage (%)

Energy losses	(1)	2017	2016
Spain and Portugal		10.6	11.0

(1) Source: In-house.

Minutes

Installed Capacity Equivalent Interruption Time (ICEIT)		2017	2016
Spain and Portugal (average)	(1) (2)	62	45

(1) Corresponds to Spain.

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

Percentage (%)

Market share (Electricity)	(1)	31 December 2017	31 December 2016
Ordinary mainland generation		38.3	35.1
Renewable generation	(2)	3.6	3.5
Distribution		44.1	43.7
Deregulated market		35.4	35.3

(1) Source: Endesa data.

(2) Excluding hydroelectric.

GWh

Gas sales		2017	2016	% Var.
Deregulated market		46,578	48,270	(3.5)
Regulated market		1,372	1,464	(6.3)
International market		24,523	19,474	25.9
Wholesale business		7,361	8,921	(17.5)
TOTAL	(1)	79,834	78,129	2.2

(1) Excluding own generation consumption.

Thousands

Customers (Gas)	(1)	2017	2016	% Var.
Regulated market		246	262	(6.1)
Mainland Spain		219	233	(6.0)
Non-mainland Territories generation (TNP)		27	29	(6.9)
Deregulated market		1,314	1,276	3.0
Mainland Spain		1,205	1,167	3.3
Non-mainland Territories generation (TNP)		63	86	(26.7)
Outside Spain		46	23	100.0
TOTAL		1,560	1,538	1.4

(1) Supply points.

Percentage (%)

Gas demand trend	(1)	2017	2016	
Domestic market		9.1		3.3
Domestic conventional		5.1		2.1
Electricity sector		26.7		(2.6)

(1) Source: Enagás, S.A.

Percentage (%)

Market share (Gas)	(1)	2017	2016	
Deregulated market		16.1		16.9

(1) Source: Endesa data.

Financial Data.

Millions of Euros

		Consolidated Income Statement ⁽⁵⁾		
		2017	2016	% Var.
Sales		19,556	18,313	6.8
Contribution margin	(1)	5,488	5,652	(2.9)
EBITDA	(2)	3,542	3,432	3.2
EBIT	(3)	2,031	1,965	3.4
Net Income	(4)	1,463	1,411	3.7

(1) Contribution margin = Income - Procurements and services.

(2) EBITDA = Income - Procurements and Services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.

(3) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and amortisation and impairment losses.

(4) Net profit: Profit/(loss) of the Parent.

(5) See the Consolidated Income Statements for 2017 and 2016.

Euros

Vauation Key figures		2017	2016	% Var.
Earnings per share	(1)	1.38	1.33	3.7
Cash Flow per share	(2)	2.30	2.83	(18.6)
Book value of equity per share	(3)	8.59 ⁽⁴⁾	8.46 ⁽⁵⁾	1.6

(1) Net profit per share = profit for the year by parent / N° shares.

(2) Cash flow per share = Net cash flows from operating activities / N° of shares.

(3) Carrying amount per share = Equity of parent / N° of shares.

(4) At 31 December 2017

(5) At 31 December 2016

Millions of Euros

		Consolidated statement of financial position ⁽²⁾		
		31 December 2017	31 December 2016	% Var.
Total assets		31,037	30,960	0.2
Equity		9,233	9,088	1.6
Net financial debt	(1)	4,985	4,938	1.0

(1) Net financial debt = Non-current financial liabilities + Current financial liabilities – Cash and cash equivalents – Financial derivatives recognised under assets.

(2) See Statements of Financial Position at 31 December 2017 and 2016.

Profitability indicators (%)		31 December 2017	31 December 2016	
Return on equity	(1)	16.21		15.69
Return on assets	(2)	4.72		4.69
Economic profitability	(3)	9.31		9.20
Return on capital employed (ROCE)	(4)	5.08		5.39

(1) Return on equity = Profit for the year by parent / Average equity of the Parent

(2) Return on assets = Profit for the year by parent / Average total assets.

(3) Economic profitability = Operating profit (EBIT) / Average property, plant and equipment.

(4) Return on capital employed = Operating profit after tax / (Average non-current assets + average current assets).

Financial indicators		31 December 2017	31 December 2016
Liquidity ratio	(1)	0.73	0.72
Solvency ratio	(2)	0.92	0.92
Debt ratio	(3)	35.06	35.21
Debt hedge ratio	(4)	1.41	1.44

(1) Liquidity = Current assets / Current liabilities.

(2) Solvency = (Equity + Non-current liabilities) / Non-current assets.

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

(4) Debt coverage = Net financial debt / Gross operating profit (EBITDA).

Workforce.

Number of employees

	Period-end headcount						% Var.
	31 December 2017 (1)			31 December 2016			
	Men	Women	Total	Men	Women	Total	
Generation and supply	4,083	1,024	5,107	4,140	989	5,129	(0.4)
Distribution	2,491	429	2,920	2,707	467	3,174	(8.0)
Structure and other (2)	884	795	1,679	679	712	1,391	20.7
TOTAL EMPLOYEES	7,458	2,248	9,706	7,526	2,168	9,694	0.1

(1) Includes the final workforce from the ICT business of ENDESA Medios y Sistemas, S.L.U. (319 employees) (see section 2.5. Acquisition of the systems and telecommunications activity (ICT) of this Consolidated Management Report).

(2) Structure and services.

Number of employees

	Average headcount						% Var.
	2017 (1)			2016 (2)			
	Men	Women	Total	Men	Women	Total	
Generation and supply	4,102	998	5,100	4,127	983	5,110	(0.2)
Distribution	2,582	441	3,023	2,841	474	3,315	(8.8)
Structure and other (3)	917	816	1,733	691	703	1,394	24.3
TOTAL	7,601	2,255	9,856	7,659	2,160	9,819	0.4

(1) Includes the average workforce from the ICT business of ENDESA Medios y Sistemas, S.L.U. (329 employees), ENEL Green Power, S.L.U. (EGPE) (174 employees) and Eléctrica del Ebro, S.A. (20 employees) (see section 2.4. Consolidation scope and 2.5. Acquisition of the systems and telecommunications activity (ICT) of this Consolidated Management Report).

(2) Includes the average workforce of ENEL Green Power España, S.L.U. (EGPE) (86 employees) and Eléctrica del Ebro, S.A. (8 employees) since their respective takeover dates (see section 2.4. Consolidation scope of this Consolidated Management Report).

(3) Structure and services.

Dividend.

		2017	2016	% Var.
Share capital	Millions of Euros	1,270.50	1,270.50	-
Number of shares		1,058,752,117	1,058,752,117	-
Consolidated net profit	Millions of Euros	1,463	1,411	3.7
Individual net profit	Millions of Euros	1,491	1,419	5.1
Earnings per share	Euros (1)	1,382	1,333	3.7
Gross dividend per share	Euros	1,382 (2)	1,333 (3)	3.7
Consolidated pay-out	(%) (4)	100.0	100.0	-
Individual pay-out	(%) (5)	98.1	99.4	-

(1) Earnings per Share (Euros) = Parent company period result / Shares.

(2) Gross interim dividend of Euro 0.7 per share paid on 2 January 2018, plus an additional gross dividend of Euro 0,682 per share pending approval by the ENDESA, S.A. General Shareholders' Meeting.

(3) Gross interim dividend of Euro 0.7 per share paid on 2 January 2017, plus an additional gross dividend of Euro 0,633 paid 3 July 2017.

(4) Consolidated pay-out (%) = (Gross dividend per share * Shares) / Parent company period result.

(5) Individual pay-out (%) = (Gross dividend per share * Shares) / Period result of ENDESA, S.A.

Stock Market Information.

The performance of ENDESA's share price on the Madrid stock market and major indexes in 2017 and 2016 is as follows:

Share price performance (1)	2017	2016
ENDESA, S.A.	(11.3)	8.6
IBEX-35	7.4	(2.0)
Euro Stoxx 50	6.5	0.7
Euro Stoxx Utilities	15.7	(7.8)

(1) Considering dividends distributed in 2017, in the gross amount of Euros 1,333 per share, the return for shareholders in 2017 was -4.7%. Considering the dividends distributed in 2016, in the gross amount of Euro 1,026 per share, the return for shareholders in 2016 was 14.2%.

Stock Market Data		31 December 2017	31 December 2016	% Var.
Market cap	Millions of Euros (1)	18,904	21,307	(11.3)
Number of outstanding shares		1,058,752,117	1,058,752,117	-
Nominal share value	Euros	1.2	1.2	-
Cash	Millions of Euros (2)	10,866	10,784	0.8
Continuous market	Shares			
Trading volume	(3)	536,793,866	596,186,291	(10.0)
Average daily trading volume	(4)	2,105,074	2,319,791	(9.3)
Price to Earnings Ratio (P.E.R.)	(5)	12.92	15.10	-
Price / Carrying amount	(6)	2.08	2.38	-

(1) Market Cap = Number of Shares at the Close of the Period * Listing Price at the Close of the Period.

(2) Cash = Sum of all the operations made over the value in the reference period (Source: Madrid Stock Exchange).

(3) Trading volume = Total volume of stock in ENDESA, S.A. traded in the period (Fuente: Madrid Stock Exchange).

(4) Average daily trading volume = Arithmetic mean of stock in ENDESA, S.A. traded per session during the period (Source: Madrid Stock Exchange).

(5) Price to Earnings ratio (PER) = Share price at the close of the period / Earnings per share.

(6) Price / Carrying amount = Market capitalisation / Equity of the Parent.

Euros

ENDESA share price⁽¹⁾	2017	2016	% Var.
High	22,760	20,975	8.5
Low	17,855	15,735	13.5
Average in the period	20,234	18,151	11.5
Closing price	17,855	20,125	(11.3)

(1) Source: Madrid Stock Exchange.

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 2017.

There follows the main changes in the Spanish regulatory framework that either were approved in 2017 or had a major effect on the Consolidated Financial Statements for that year.

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, Royal Decree 1073/2015, of 27 November, eliminates the yearly update of unitary values based on the CPI, in accordance with Law 2/2015, of 30 March 2015, on de-indexing the economy.

On 12 December 2015, Ministerial Order IET/2660/2015, of 11 December 2015, was published, establishing the types of installations and unitary value to be used in calculating distribution remuneration. This Order set the beginning of the first regulatory period as at 1 January 2016.

On 17 June 2016, Ministerial Order IET/980/2016, of 10 June 2016, was published in the Official State Gazette, setting remuneration on distribution activity for 2016 and awarding ENDESA a remuneration for the development of this activity of Euros 2,032 million (Euros 2,040 million considering incentives), of which Euros 2,014 million and Euros 2,023 million, respectively, corresponded to ENDESA Distribución Eléctrica, S.L.U. On 15 September 2017, the announcement of the Deputy Head of Resources, Claims and Relations with the Ministry of Justice was published in the Official State Gazette (BOE), informing of the hearing procedures for the order issued by the Ministry of Energy, Tourism and Digital Agenda, initiating the procedure to file a declaration of adverse effect on the public interest of Ministerial Order IET/980/2016, of 10 June.

On the other hand, recently, the Ministry of Energy, Tourism and Digital Agenda has initiated the application of the Order by which the remuneration of the distribution activity for 2017 is established, corresponding to ENDESA a remuneration for the development of this activity of Euros 2,116 million (Euros 2,092 million considering the incentives), of which Euros 2,094 million and Euros 2,070 million, respectively, correspond to ENDESA Distribución Eléctrica, S.L.U. (see Section 2.2. Analysis of results and 2.3. Segment Information in this Consolidated Management Report).

Royal Decree on the methodology for calculating the trading margin to be added to the Small Consumer Voluntary Price.

On 25 November 2016 the Official State Gazette (BOE) published Royal Decree 469/2016 of 18 November establishing the methodology for calculating the trading margin on the Small Consumer Voluntary Price, thus complying with various rulings handed down by the Supreme Court that annulled the trading margin contained in Royal Decree 216/2014 of 28 March establishing the procedure for calculating Small Consumer Voluntary Prices for electricity and the legal framework for contracting power.

On 24 December 2016 Ministerial Order ETU/1948/2016 was published - this came into force on 1 January 2017, and establishes the trading margin on the Small Consumer Voluntary Price. On 25 March 2017 Ministerial Order ETU/258/2017 was published, coming into force on 26 March 2017, and modifying the trading margin on the Small Consumer Voluntary Price to include the cost of contribution to the Energy Efficiency National Fund.

2017 electricity tariff

On 29 December 2016, the Official State Gazette (BOE) published Order ETU/1976/2016 of 23 December, which establishes the access tariffs for 2017.

In accordance with this Order, the access tariffs remained unchanged.

2018 electricity tariff

On 27 December 2017 the Official State Gazette (BOE) published Order ETU/1282/2017 of 22 December, which establishes the access tariffs for 2018.

In accordance with this Order, the access tariffs remained unchanged.

Natural gas tariff for 2017

Under Order ETU/1977/2016 of 23 December access tariffs in force in 2016 were largely maintained, having updated the Last Resort Tariffs with an average reduction of 9% resulting from lower raw material costs.

Natural gas tariff for 2018

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

Energy Efficiency.

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

Order ETU/258/2017 of 24 March entailed a contribution by ENDESA to the Energy Efficiency National Fund of Euros 29.3 million, corresponding to its 2017 obligations.

The Ministry of Energy, Tourism and Digital Agenda has started processing the proposed contribution for 2018. The amount proposed for ENDESA stands at Euros 28.5 million.

Renewable energy auction.

On 1 April 2017 the Official State Gazette (BOE) published Royal Decree 359/2017 of 31 March, establishing a call for assigning the specific remuneration system for new renewable energy production facilities through an auction with a maximum installed power limit of 3,000 MW.

This Royal Decree was enacted by Order ETU/315/2017 of 6 April, regulating the procedure for assigning the specific remuneration system in each auction, in addition to the remuneration parameters for reference and

standard facilities, and characteristics of the auction, and the Resolutions issued by the Secretary of State for Energy on 10 April 2017 approving the call for an auction and the terms and conditions thereof.

As a result of this auction, which took place on 17 May 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 540 MW of wind power capacity (see Section 2.4. Scope of Consolidation and 4.5. Investments in this Consolidated Management Report).

Additionally, on 17 June 2017, Royal Decree 650/2017, of 16 June 2017, was published in the Official State Gazette (BOE), establishing a new installed capacity quota of 3,000 MW for new plants that generate power using renewable energy sources, enacted by Order ETU/615/2017, of 27 June, that establishes the assignment procedure and remuneration parameters for the auction, the Resolution issued by the Secretary of State for Energy on 30 June 2017, calling for an auction for the assignment of the specific remuneration regime for new renewable energy production facilities, pursuant to Royal Decree 650/2017, of 16 June.

As a result of this auction, which took place on 26 July 2017, ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 339 MW of photovoltaic capacity (see Section 2.4. Scope of Consolidation and 4.5. Investments in this Consolidated Management Report).

Fee for the use of continental waters to generate electricity.

On 10 June 2017, Royal Decree Law 10/2017 of 9 June was published in the Official State Gazette (BOE), establishing specific urgent measures to mitigate the effects of drought in certain river basins, amending the current Water Law.

Among other aspects, this Royal Decree Law modifies the tax on the fee for using continental waters to produce electric power from 22% to 25.5%, with a reduction for plants with capacity of up to 50 MW to offset the tax increase.

Social Bonus (or Social Tariff).

Law 24/2013, of 26 December 2013, required that the subsidised electricity tariff cost must be assumed, as a public service obligation, by parent companies or vertically-integrated groups of companies carrying out electricity generation, distribution and supply activities, to assume the cost of the subsidised electricity tariff in proportion to a percentage based on both their number of supply connections to distribution grids and the number of customers supplied, set for ENDESA at 41.10% in 2016 under Ministerial Order IET/1451/2016, of 8 September.

Despite the foregoing, in the Ruling of 24 October 2016 the Contentious-Administrative Section of the Supreme Court declared the Social Bonus financing system established by article 45.4 of Law 24/2013 of 26 December to be inapplicable, since it was incompatible with Directive 2009/72/EC of the European Parliament and of the Council, of 13 July 2009, concerning common rules for the internal market in electricity, and acknowledged the right of companies to recover the amounts paid. The State authorities submitted an application for dismissal of the Supreme Court ruling, which was overruled in a ruling dated 14 December 2016, and on 2 February 2017, an appeal was submitted against this decision before the Constitutional Court (see Note 17.3 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 3 October and 27 December 2017 Order ETU/929/2017, of 28 September and Order ETU/1288/2017, of 22 December, were published, implementing the different rulings handed down in this respect and the Spanish Markets and Competition Commission (CNMC) was ordered to pay the amounts corresponding to the Social Bonus for 2014, 2015 and 2016 (see Section 2.2. Analysis of results and 2.3. Segment Information in this Consolidated Management Report).

In 2017, the Company recognised this income in the consolidated income statement for the amount of Euros 222 million under "Other variable procurements and services" and Euros 15 million under "Financial income", which has been collected in full at the date of preparation of this Consolidated Management Report (see Notes 26 and 30 to the Consolidated Financial Statements for the year ended 31 December 2017).

On 24 December 2016, Royal Decree-Law 7/2016 of 23 December was published to regulate the financing of the costs of the Social Bonus and other measures to protect vulnerable electricity consumers. According to this Royal Decree Law the social bonus will be financed by the parents of company groups that carry out energy

supply activities, or by the companies themselves if they do not form part of a corporate group, in the percentage corresponding to their customer share. This percentage will be calculated annually by the CNMC.

The sole transitional provision of the Royal Decree Law establishes the percentage distribution for the Social Bonus to be applied since it came into effect, with 37.7% corresponding to ENDESA in 2017.

In January 2018, the Spanish Markets and Competition Commission (CNMC) published the proposed percentage of financing for 2018, with 37.14% corresponding to ENDESA.

On 7 October 2017 Royal Decree 897/2017, of 6 October, was published, regulating the figure of the vulnerable customer, the Social Bonus and other protection measures for domestic electricity consumers, in addition to Order ETU/943/2017, of 6 October, enacting Royal Decree 897/2017, of 6 October.

Among other aspects, three categories of vulnerable customers have been identified based on the average income level through the Spanish Public Income Index (IPREM), establishing different discount percentages according to each category. The three categories are:

- Vulnerable customers (25% discount).
- Severely vulnerable customers (40% discount).
- Severely vulnerable customers at risk of social exclusion (100% discount), classified as severely vulnerable customers for which the social services can be proved to be paying at least 50% of their invoice.

This Royal Decree also regulates other aspects relating to supply and, among others, raises from two to four months the term for cutting off of supply to vulnerable customers (severely vulnerable customers at risk of social exclusion cannot be cut off as power is considered to be a basic supply).

Availability service.

On 23 November 2017, Order ETU/1133/2017, of 21 November, was published, amending Order IET/2013/2013, of 31 October, regulating the competitive mechanism for assigning the management service for interruptibility demand.

Among other aspects, the Order amends the remuneration for the availability service, extends the service to the first half of 2018 and eliminates hydro facilities from the collection of this availability service during this period.

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

ENDESA maintains the same principles of prudence as applied to date in its financial structure: obtaining medium/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 and capital markets.
- Obtains funds from public authorities that offer attractive terms for very long-term loans.

- Has short-term financing in place that helps optimise the management of its working capital requirements and improve the cost of its debt. This financing is obtained through bank credit facilities with leading financial institutions or through the issue of Euro Commercial Paper (ECP).

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

Financial position.

In 2017, European sovereign debt interest rates rose from 2016 lows. The Spanish 10-year bond yield increased from 1.38% at the start of the year to 1.56% at year-end 2017, in line with the German 10-year bond yield, which increased by 22 basis points to 0.42%. As a result, country risk for Spain (the spread with the German 10-year bond) closed 2017 at 114 basis points, a similar level to that seen at year-end 2016. In other peripheral euro zone countries, the Italian risk premium stood at 158 basis points, in line with 2016, while the Portuguese risk premium fell to 149 basis points, from 354 b.p. at year-end 2016.

In 2017, the European Central Bank (ECB) kept interest rates in the euro zone at the historic low of 0% and opted for an alternative method to reduce quantitative expansion (QE), trimming back its monthly asset purchases to Euros 30,000 million but extending the programme at least until September 2018.

In 2017, euro long-term interest rates (10-year swap) rose from 0.66% at the beginning of the year to 0.89% by year-end. The short-term interest rate (3-month Euribor) remained at -0.33%. The long-term interest rate on the US dollar (USD) (10-year swap) rose slightly in 2017 from 2.34% to 2.40%, while the short-term interest rate on the US dollar (USD) increased from 1.00% to 1.69%.

In 2017, the euro strengthened by 14% against the US dollar (USD), causing the EUR/USD exchange rate to rise from 1.05 at the beginning of the year to 1.20 at year-end, affected by the waning of the bullish effect of Trump's tax reform on the USD, the reduction of political risk in the euro area and the convergence between the economic cycles in euro area and the United States.

Financial debt.

As of 31 December 2017, ENDESA had net financial debt of Euro 4,985 million, an increase of Euro 47 million (+1%) compared to the debt at 31 December 2016.

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

Millions of Euros					
Reconciliation of financial debt					
	31 December 2017	31 December 2016	Difference	% Var.	
Non-current interest-bearing loans and borrowings	4,414	4,223	191	4.5	
Current interest-bearing loans and borrowings	978	1,144	(166)	(14.5)	
Gross financial debt ⁽¹⁾	5,392	5,367	25	0.5	
Cash and cash equivalents	(399)	(418)	19	(4.5)	
Derivatives recognised as financial assets	(8)	(11)	3	(27.3)	
Net financial debt	4,985	4,938	47	1.0	

(1) At 31 December 2017 this includes Euros 12 million corresponding to financial derivatives recognised under financial liabilities (Euros 17 million at 31 December 2016).

For the purposes of assessing net debt in 2017, it must also be borne in mind that on 2 January 2017 ENDESA paid shareholders an interim dividend against 2016 profits of Euro 0.70 per share, entailing a disbursement of Euros 741 million, and on 3 July 2017 it paid an additional gross dividend against 2016 profits of Euro 0,633 per share, entailing a disbursement of Euros 670 million.

The structure of ENDESA's gross financial debt at 31 December 2017 and 2016, was as follows:

Millions of Euros

	Structure of gross financial debt			
	31 December 2017	31 December 2016	Difference	% Var.
Euro	5,392	5,367	25	0.5
TOTAL	5,392	5,367	25	0.5
Fixed rate	3,611	3,661	(50)	(1.4)
Floating rate	1,781	1,706	75	4.4
TOTAL	5,392	5,367	25	0.5
Average life (years) ⁽¹⁾	6.1	6.5	-	-
Average cost (%) ⁽²⁾	2.1	2.5	-	-

(1) Lifespan of gross financial debt (years) = (principal * number of days of term) / (principal in force at 31 December * 365 days).

(2) Average cost of gross financial debt (%) = (cost of gross financial debt) / gross average financial debt.

At 31 December 2017, 67% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 33% 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 18 to the Consolidated Financial Statements for the year ended 31 December 2017.

Main financial transactions.

Within the framework of the financial transaction (ENDESA Network Modernisation) concluded with the European Investment Bank (EIB) in 2014, Tranches B and C (each one of Euros 150 million) were available on 18 January 2017 and 20 February 2017, thus completing the provision of the transaction for a total amount of Euros 600 million. Both provisions are variable, with a 12-year maturity payable as of 2021.

In 2017, ENDESA, S.A. concluded agreements with different financial institutions for the extension to three years with a possibility of extending to five years of most of its credit lines for Euros 1,985 million.

On 30 June 2017 ENDESA, S.A. successfully renegotiated the conditions of the irrevocable and committed inter-company credit facility arranged with ENEL Finance International N.V. for the amount of Euros 1,000 million, extending its maturity to 30 June 2020 and reducing the margin and fee applicable, if the facility is not used, to 55 b.p. and 18 b.p. respectively. At 31 December 2017, this committed line of credit had not been drawn down.

On 21 December 2017, ENDESA, S.A. subscribed to financing, yet to be paid at the date of preparation of this Consolidated Management Reports, with the European Investment Bank for the amount of Euros 500 million, maturing in 12 years and offering a three-year grace period.

On 28 December 2017, ENDESA S.A. renewed the uncommitted inter-company credit facility arranged with ENEL Finance International N.V., for Euros 1,500 million, extending the maturity to 28 December 2018, with the rest of the terms unchanged. At 31 December 2017, this uncommitted line of credit had not been drawn down.

In 2017, ENDESA maintained the Euro Commercial Paper (ECP) programme through International ENDESA, B.V., and the outstanding balance at 31 December 2017 was Euros 889 million, renewable with the backing of irrevocable lines of bank credit.

Liquidity.

As of 31 December 2017, ENDESA's liquidity stood at Euros 3,495 million (Euros 3,620 million at 31 December 2016) as detailed below:

	Liquidity			
	31 December 2017	31 December 2016	Difference	% Var.
Cash and cash equivalents	399	418	(19)	(4.5)
Unconditional availability in lines of credit ⁽¹⁾	3,096	3,202	(106)	(3.3)
TOTAL	3,495	3,620	(125)	(3.5)
Coverage of maturities (number of months) ⁽²⁾	29	17	-	-

(1) At 31 December 2017 and 2016, Euros 1,000 million were accounted for by the committed and irrevocable line of credit arranged with ENEL Finance International, N.V.

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

Treasury investments considered as “Cash and cash equivalents” are high liquidity and entail no risk of changes in value, mature within 3 months from their contract date and accrue interest at the market rates for such instruments. Information on ENDESA's cash and cash equivalents is set out in Note 14 to the Consolidated Financial Statements for the year ended 31 December 2017.

Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 14 and 15.1.12 to the Consolidated Financial Statements for the year ended 31 December 2017.

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 2017 and 2016 are as follows:

Millions of Euros	Leverage ⁽¹⁾	
	31 December 2017	31 December 2016
Net financial debt:	4,985	4,938
Non-current financial debt	4,414	4,223
Current financial debt	978	1,144
Cash and cash equivalents	(399)	(418)
Derivatives recognised as financial assets	(8)	(11)
Equity:	9,233	9,088
Of the Parent	9,096	8,952
Of non-controlling interests	137	136
Leverage (%)	53.99	54.34

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

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

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

Information on capital management is provided in Note 15.1.11 to the Consolidated Financial Statements for the year ended 31 December 2017.

4.3. Credit Rating Management.

2017 was a relatively quiet year on the fixed income market, even though central banks started to plan adjustments to normalise monetary market after ten years of expansive policy.

The Spanish risk premium, which compares the Spanish and German bonds, closed the year at 114 basis points, 2 less than at the start of 2017. The annual high was observed in February, when it hit 156.5 basis points, and on 4 October 2017, days after the Catalonia independence referendum, it rose again, to 132.5 basis points.

This scenario of relative calm, despite the political uncertainty caused by the situation in Catalonia, was reflected by the main rating agencies. On 21 July 2017, Fitch Ratings raised the outlook for its sovereign rating from stable to positive, maintaining its BBB+ rating, and on 29 September 2017 Standard & Poor's confirmed its rating of BBB+/A-2 for Spain, also with a positive outlook. On 19 January 2018, Fitch raised its sovereign rating to A-, with a stable outlook.

With regard to the electricity sector, fundamentals remained healthy both in terms of stability of demand and tariff sufficiency.

Standard & Poor's raised its rating for ENDESA from BBB to BBB+ on 7 December 2017, maintaining the stable outlook which it had downgraded from positive in May. This review formed part of a general review of

ENEL's rating following the presentation of its Strategic Plan for 2018-2020 and was based on the Group's capacity to optimise its cost structure through digitalisation programmes, its focus on regulated business and the renewables sectors, and the simplification of its shareholder structure.

The other rating agencies that cover ENDESA affirmed their ratings in 2017. On 16 May 2017, Fitch Ratings confirmed its BBB+ rating, with a stable outlook, and on 31 August 2017, Moody's confirmed its Baa2 rating, also with a stable outlook.

Developments in ENDESA's credit ratings in 2017 were as follows:

	Credit rating					
	31 December 2017 ⁽¹⁾			31 December 2016 ⁽¹⁾		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB+	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

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

ENDESA's credit rating is conditioned by the rating of its parent company ENEL according to the methods employed by rating agencies and, as of 31 December 2017, has been classified as "investment grade" by all the rating agencies.

ENDESA works to maintain its investment grade credit rating to be able to efficiently access money markets and bank funding, and to obtain preferential terms from its main suppliers.

4.4. Cash Flows.

At 31 December 2017, cash and cash equivalents stood at Euros 399 million (Euros 418 million at 31 December 2016).

At 31 December 2017 and 2016, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros	Statement of cash flows			
	2017	2016	Difference	% Var.
Net cash flows from operating activities	2,438	2,995	(557)	(18.6)
Net cash flows used in investing activities	(1,115)	(2,317)	1,202	(51.9)
Net cash flows used in financing activities	(1,342)	(606)	(736)	121.5

In 2017, net cash flows from operating activities (Euros 2,438 million) helped cover the net investment required to conduct ENDESA's businesses (Euros 1,115 million), in addition to net cash flows from financing activities (Euros 1,342 million), while cash and cash equivalents fell Euros 19 million during the period.

Information on ENDESA's consolidated statements of cash flow is set out in Note 33 to the Consolidated Financial Statements for the year ended 31 December 2017.

Cash flow from operating activities.

In 2017, net cash flow from operating activities totalled Euros 2,438 million, a decrease of Euros 557 million (-18.6%) compared to 2016 (Euros 2,995 million) and present the detail that appears below:

Millions of Euros		
	2017	2016
Profit before tax	1,900	1,710
Adjustments for:	1,579	1,840
Depreciation and amortisation, and impairment losses	1,511	1,467
Other adjustments (net)	68	373
Changes in working capital	(370)	217
Trade and other receivables	(387)	(57)
Inventories	(241)	(162)
Current financial assets	(554)	336
Trade payables and other current liabilities	812	100
Other cash flows from/(used in) operating activities:	(671)	(772)
Interest received	44	27
Dividends received	27	22
Interest paid	(134)	(128)
Income tax paid	(350)	(346)
Other receipts from and payments for operating activities	(258)	(347)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,438	2,995

Concerning the variations in the different items determining the net cash flows from to operating activities:

- In 2017, the net cash flows from operating activities include the incorporation of ENEL Green Power España S.L.U. (EGPE) and Eléctrica del Ebro, S.A.U. to the consolidation scope for the amount of Euros 195 million and Euros 6 million respectively (Euros 65 million and Euros 1 million, respectively in 2016 from their respective takeover dates) (see Section 2.4 Consolidation Scope of this Consolidated Management Report).
- The changes in working capital between both periods for the amount of Euros 587 million, resulting mainly from the reduction of Euros 833 million in net receipts from corresponding to the compensation for extra-costs corresponding to Non-mainland Territories generation (TNP) (see Section 3. Regulatory Framework of this Consolidated Management Report and Notes 4, 13, 19.1.1 and 23 to the Consolidated Financial Statements for the year ended 31 December 2017).
- These changes also reflect the amount pending receipt of the Social Bonus as a result of the passing of several rulings relating thereto (see Notes 4, 17.3, 26 and 30). (see Section 3. Regulatory Framework of this Consolidated Management Report and Notes 4, 17.3, 26 and 30 to the Consolidated Financial Statements for the year ended 31 December 2017).
- In 2017 the Company has also continued with its active policy concerning the management of current assets and liabilities, focusing on, among other aspects, the improvement of processes, the factoring of accounts receivable (see Note 13 to the Consolidated Financial Statements for the year ended 31 December 2017) and agreements extending payment periods with suppliers (see Note 23 to the Consolidated Financial Statements for the year ended 31 December 2017).
- The changes in other operating activity receipts and payments in both periods for the amount of Euros 89 million, mainly as a result of the lower payments for provisions, corresponding to workforce restructuring plans (see Note 17.2 to the Consolidated Financial Statements for the year ended 31 December 2017).

At 31 December 2017 and 2016 working capital broke down as follows:

Millions of Euros		
	31 December 2017	31 December 2016
Current assets ⁽¹⁾	5,131	5,015
Inventories ⁽²⁾	1,267	1,202
Trade and other receivables ⁽³⁾	3,100	3,452 ⁽⁴⁾
Current financial assets	764 ⁽⁵⁾	361 ⁽⁶⁾
Current liabilities ⁽⁷⁾	6,557	6,377
Current provisions ⁽⁸⁾	425	567
Trade and other payables ⁽⁹⁾	6,132 ⁽¹⁰⁾	5,810 ⁽¹¹⁾

(1) Excluding "Cash and cash equivalents" and Financial derivative assets corresponding to financial debt.

(2) See Note 12 to the Consolidated Financial Statements for the year ended 31 December 2017.

(3) See Note 13 to the Consolidated Financial Statements for the year ended 31 December 2017.

(4) Includes the acquisition price of the systems and telecommunications activity (ICT) paid on 29 December 2016, totalling Euros 246 million (see Section 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

(5) Includes Euros 222 million relating to collection rights for financing of the deficit in regulated activities, Euros 70 million relating to remuneration on distribution activity and Euros 304 million relating to compensation for extra-costs in Non-mainland Territories generation (TNP) (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

(6) Includes Euros 258 million relating to collection rights for financing of the deficit in regulated activities and Euros 32 million relating to remuneration on distribution activity (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

(7) Excluding Current Financial Debt and Financial Derivative Liabilities corresponding to financial debt.

(8) See Note 24 to the Consolidated Financial Statements for the year ended 31 December 2017.

(9) See Note 23 to the Consolidated Financial Statements for the year ended 31 December 2017.

(10) Includes the interim dividend with a charge against 2017 profits of Euros 741 million, paid on 2 January 2018).

(11) Includes the interim dividend with a charge against 2016 profits of Euros 741 million, paid on 2 January 2017 and Euros 296 million relating to compensation for extra-costs in Non-mainland Territories generation (TNP) (see Note 19.1.1 to the Consolidated Financial Statements for the year ended 31 December 2017).

Net cash flows used in investment activities.

In 2017 net cash flows used in investing activities stood at Euros 1,115 million, down 51.9% compared to 2016 (Euros 2,317 million) and include, among others:

- The net cash payments for the acquisition of property, plant and equipment and intangible assets for the amount of Euros 971 million (Euros 1,144 million in 2016) (see Section 4.5. Investments in this Consolidated Management Report).
- The payments of the investments and/or collections of the disposals in shareholdings in Group Companies as detailed below:

Millones de Euros			
	Sections	2017	2016
Investments in shareholdings in Group Companies		(2)	(1,196)
Corporate transactions related to capacity awarded in renewable power auctions	2.4	(1)	-
Eléctrica de Jafre, S.A.	2.4	(1)	-
ENEL Green Power España, S.L.U. (EGPE)	2.4	-	(1,178)
Eléctrica del Ebro, S.A.U.		-	(18)
Disposals in shareholdings in Group Companies		16	135
Aquila Solar, S.L., Cefeidas Desarrollo Solar, S.L., Cephei Desarrollo Solar, S.L., Desarrollo Photosolar, S.L., Fotovoltaica Insular, S.L. and Sol de Media Noche Fotovoltaica, S.L.	2.4	16	-
Energía de La Loma, S.A. and Energías de la Mancha Eneman, S.A.		-	21
ENEL Insurance N.V.		-	114

Net cash flows using in financing activities.

In 2017, net cash flows used in financing activities stood at Euros 1,342 million, a rise of 121.5% compared to 2016 (Euros 606 million) and mainly include the following:

- Proceeds from the following non-current borrowings:

Millions of Euros			
	Sections	2017	2016
Proceeds from Tranches B and C of European Investment Bank (EIB)	4.1	300	-
Proceeds from Credit Line		-	90
Other proceeds		15	19

- Repayments of the following non-current borrowings:

Millions of Euros	2017	2016
Repayments of Bonds issued by International ENDESA B.V.	20	-
Repayments of Loans with Natixis	21	-
Repayments of Credit Line	-	105
Other repayments	33	13

- Payment of the following dividends:

Millions of Euros	Sections	2017	2016
Dividends of the Parent Paid	13.2	1,411	1,086
Dividends to Non-controlling Interests Paid ⁽¹⁾		4	3

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

- The net payment of Euros 3 million relating to the acquisition of non-controlling interests in the companies Productor Regional de Energía Renovable, S.A. and Productor Regional de Energías Renovables III, S.A. (see Note 2.3.1 and 15.2 to the Consolidated Financial Statements for the year ended 31 December 2017).

4.5. Investments.

In 2017, gross investment by ENDESA totalled Euros 1,175 million (Euros 1,221 million in 2016), of which Euros 978 million related to Investments in property, plant and equipment, Euros 133 million to investments in intangible assets, and Euros 64 million to financial investments, as follows:

Millions of Euros	Investments ⁽¹⁾		
	2017 ⁽²⁾	2016 ⁽³⁾	% Var.
Generation and supply	358	388	(7.7)
Distribution	610	595	2.5
Others	10	2	400.0
TOTAL PROPERTY, PLANT AND EQUIPMENT	978	985	(0.7)
Generation and supply	48	57	(15.8)
Distribution	47	55	(14.5)
Others	38	31	22.6
TOTAL INTANGIBLE ASSETS	133	143	(7.0)
FINANCIAL INVESTMENTS	64	93	(31.2)
TOTAL GROSS INVESTMENT	1,175	1,221	(3.8)
TOTAL NET INVESTMENTS ⁽⁴⁾	982	1,028	(4.5)

(1) Does not include business combinations made during the year (see Sections 2.4. Consolidation Scope and 2.5. Acquisition of the systems and telecommunications activity (ICT) in this Consolidated Management Report).

(2) Includes gross investments made by ENEL Green Power España, S.L.U. (EGPE) amounting to Euros 24 million.

(3) Includes gross investments made by ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 14 million.

(4) Net investments = Gross investments - Capital grants and transferred facilities.

Investments in property, plant and equipment

Gross generation investments in 2017 related largely related to plants that were already operating at 31 December 2016, as well as investments in the Litoral coal plant in the amount of Euros 39 million and the As Pontes coal plant in the amount of Euros 34 million in connection with the Industrial Emissions Directive, which extended their useful lives. It also includes investment in upgrading major components of renewable technology assets.

ENDESA, through ENEL Green Power España, S.L.U. (EGPE), was awarded 540 MW of wind power capacity and 339 MW of photovoltaic capacity in the auctions conducted by the Ministry of Energy, Tourism and Digital Agenda on 17 May 2017 and 26 July 2017, respectively, and expects to invest approximately Euros 870 million in constructing the awarded capacity, of which Euros 7 million had already been spent at 31 December 2017 (see Section 3. Regulatory Framework in this Consolidated Management Report).

Gross investments in supply mainly related to the development of the activities related to added-value products and services (PSVAs).

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

Investment in Intangible Assets.

Gross investment in intangible assets in 2017 correspond, mainly to software and ongoing investments in the ICT activity, including the adaptation of the ERP system to the new Evolution for Energy (E4E) SAP.

Financial investments.

Financial investments in 2017 corresponds mainly to the contribution of funds of Euros 38 million to Nuclenor, S.A.

4.6. Contractual Obligations and Off-Balance Sheet Operations.

Information concerning future purchase commitments is provided in Notes 6, 8 and 12 to the Consolidated Financial Statements for the year ended 31 December 2017, broken down as follows:

Millions of Euros	Future electricity purchase commitments	
	31 December 2017	31 December 2016
Property, plant & equipment	364	338
Intangible assets	7	2
Financial assets	-	-
Purchases of fuel stocks and others	18,739	20,652
Purchases of fuel stocks	18,656	20,596
Electricity purchases	17	-
Purchases of carbon dioxide (CO ₂) emission rights, Certified Emission Reductions CERs and ERUs	66	56
TOTAL	19,110	20,992

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.

4.7. Dividend policy.

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

As a result of this economic-financial strategy, unless any exceptional circumstances arise, which will be duly announced, at a meeting on 21 November 2017 the Board of Directors of ENDESA, S.A. approved the following shareholder remuneration policy for 2017-2020:

- 2017 to 2020: the ordinary dividend per share distributed against these years will be the equivalent to 100% of ordinary net profit attributable to the Parent company set down in the Consolidated Financial Statements of the Group headed by this company, with a minimum of Euros 1.32 per share, gross, in 2017 and Euros 1.33 per share, gross in 2018.
- The intention of the Board of Directors of ENDESA, S.A. is that the ordinary dividend will be paid solely in cash in two instalments (January and July) on a given date to be determined in each case, which will be duly notified.

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.

In respect of 2017, at a meeting on 21 November 2017 ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2017 profits of Euros 0.70 per share, which gave rise to a payout of Euros 741 million on 2 January 2018.

The proposed distribution of profit in 2017 to be presented for approval at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 1.382 per share.

Taking into account the interim dividend referred to in the preceding paragraph, the complementary dividend in respect of 2017 profits will be a gross amount of Euro 0.682 per share.

Alternative Performance Measures

Alternative Performance Measures (APMs)	Unit	Definition	Reconciliation of Alternative Performance Measures (APMs)		Relevance of use
			31 December 2017	31 December 2016	
EBITDA	Millions of Euros	Income - Procurements and services + Work carried out by the Group for its assets - Personnel expenses - Other fixed operating expenses.	3,542 MME = 20,057 MME - 14,569 MME + 222 MME - 917 MME - 1,251 MME	3,432 MME = 18,979 MME - 13,327 MME + 117 MME - 1,128 MME - 1,209 MME	Measure of operating return excluding interest, taxes, provisions and amortisation
EBIT	Millions of Euros	EBITDA - Depreciation and amortisation, and impairment losses.	2,031 MME = 3,542 MME - 1,511 MME	1,965 MME = 3,432 MME - 1,467 MME	Measure of operating return excluding interest and taxes
Contribution margin	Millions of Euros	Revenue - Procurements and services	5,488 MME = 20,057 MME - 14,569 MME	5,652 MME = 18,979 MME - 13,327 MME	Measure of operating return including direct variable production costs
Procurements and Services	Millions of Euros	Energy purchases + Fuel consumption + Transport expenses + Other variable procurements and services.	14,569 MME = 4,933 MME + 2,294 MME + 5,652 MME + 1,690 MME	13,327 MME = 4,056 MME + 1,652 MME + 5,813 MME + 1,806 MME	Goods and services for production
Net financial gain/(loss)	Millions of Euros	Financial income - Financial expense + Net exchange differences.	(123) MME = 51 MME - 178 MME + 4 MME	(182) MME = 44 MME - 222 MME - 4 MME	Measure of financial cost
Net investment	Millions of Euros	Gross investments - Capital grants and transferred facilities	982 MME = 1,175 MME - 193 MME	1,028 MME = 1,221 MME - 193 MME	Measure of investment activity
Net financial debt	Millions of Euros	Non-current financial liabilities + Current financial liabilities - Cash and cash equivalents - Financial derivatives recognised under assets	4,985 MME = 4,414 MME + 978 MME - 399 MME - 8 MME	4,938 MME = 4,223 MME + 1,144 MME - 418 MME - 11 MME	Short and long-term financial debt, less cash and financial investment cash equivalents
Leverage	%	Net financial debt / Equity	53.99% = 4,985 MME / 9,233 MME	54.34% = 4,938 MME / 9,088 MME	Measure of the weighting of external funds in the financing of business activities
Debt	%	Net financial debt / (Equity + Net financial debt)	35.06% = 4,985 MME / (9,233 MME + 4,985 MME)	35.21% = 4,938 MME / (9,088 MME + 4,938 MME)	Measure of the weighting of external funds in the financing of business activities.
Average Life of Gross Financial Debt	Number of years	(Principal * Number of valid days) / (Valid principal at the close of the period * Number of days in the period).	6.1 years = 32,944 / 5,380	6.5 years = 34,928 / 5,342	Measure of the duration of financial debt to maturity
Average Cost of Gross Financial Debt	%	(Cost of gross financial debt) / Gross average financial debt	2.1% = 130 MME / 6,082 MME	2.5% = 128 MME / 5,191 MME	Measure of the effective rate of financial debt
Debt Coverage Ratio	Number of months	Maturity period (months) for vegetative debt that could be covered with the liquidity available.	29 months	17 months	Measure of the capacity to meet debt maturities
Return on equity	%	Profit/loss attributable to the Parent / Average equity of the Parent	16.21% = 1,463 MME / 9,024 MME	15.69% = 1,411 MME / 8,994 MME	Measure of the capacity to generate profits on shareholder investments
Return on assets	%	Profit/loss attributable to the Parent / Average total assets.	4.72% = 1,463 MME / 30,998.5 MME	4.69% = 1,411 MME / 30,102.5 MME	Measure of business profitability
Economic profitability	%	EBIT / Average PP&E.	9.31% = 2,031 MME / 21,809 MME	9.20% = 1,965 MME / 21,353 MME	Measure of the capacity to generate income from invested assets and capital
Return on capital employed (ROCE)	%	Operating profit after tax / (Average non-current assets + Average current assets).	5.08% = 1,574.6 MME / 30,998.5 MME	5.39% = 1,622.6 MME / 30,102.5 MME	Measure of the return on invested capital
Liquidity	N/A	Current assets / Current liabilities.	0.73 = 5,530 MME / 7,535 MME	0.72 = 5,435 MME / 7,521 MME	Measure of the capacity to meet short term commitments
Solvency	N/A	(Equity + Non-current liabilities) / Non-current assets	0.92 = (9,233 MME + 14,269 MME) / 25,507 MME	0.92 = (9,088 MME + 14,351 MME) / 25,525 MME	Measure of the capacity to meet obligations
Debt coverage	N/A	Net financial debt / EBITDA	1.41 = 4,985 MME / 3,542 MME	1.44 = 4,938 MME / 3,432 MME	Measure of the amount of available cash flow to meet payments of principal on financial debt
Earnings per Share	Euros	Parent company period result / Shares at the close of the period	1.38 € = 1,463 MME / 1,058,752,117 shares	1.33 € = 1,411 MME / 1,058,752,117 shares	Measure of the portion of net profit corresponding to each share outstanding
Cash Flow per Share	Euros	Net cash flow of the operating activities / Shares at the close of the period	2.30 € = 2,438 MME / 1,058,752,117 shares	2.83 € = 2,995 MME / 1,058,752,117 shares	Measure of the portion of funds corresponding to each share outstanding
Book value of equity per share	Euros	Parent Company equity / Shares at the close of the period	8.59 € = 9,096 MME / 1,058,752,117 shares	8.46 € = 8,952 MME / 1,058,752,117 shares	Measure of the portion of own funds corresponding to each share outstanding
Market Cap	Millions of Euros	Number of shares at the close of the period * Share price at the close of the period.	18,904 MME = 1,058,752,117 shares * 17,855 €	21,307 MME = 1,058,752,117 shares * 20,125 €	Measure of the total enterprise value according to the share price
Price to Earnings Ratio (P.E.R.)	N/A	Share price at the close of the period / Earnings per share	12.92 = 17,855 € / 1.38 €	15.10 = 20,125 € / 1.33 €	Measure indicating the number of times earnings per share can be divided into the market price of the shares
Price / Carrying amount	N/A	Market capitalisation / Equity of the Parent	2.08 = 18,904 MME / 9,096 MME	2.38 = 21,307 MME / 8,952 MME	Measure comparing the total enterprise value according to the share price with the carrying amount
Consolidated Pay-Out	%	Gross dividend per share * N° shares at the close of the period / Profit for the year of the parent	100.0% = (1,382 € * 1,058,752,117 shares) / 1,463 MME	100.0% = (1,333 € * 1,058,752,117 shares) / 1,411 MME	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (Consolidated Group)
Individual Pay-Out	%	(Gross dividend per share * N° shares at the close of the period / Profit for the year of the ENDESA, S.A.	98.1% = (1,382 € * 1,058,752,117 shares) / 1,491 MME	99.4% = (1,333 € * 1,058,752,117 shares) / 1,419 MME	Measure of the part of profits obtained used to remunerate shareholders through the payment of dividends (individual company)

MME = millions of euros; € = euros.