ENDESA, S.A.
and
Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016

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

The 2016 Management Report of **ENDESA, Sociedad Anónima**, contained herein, was authorised for issue by the Board of Directors of ENDESA, S.A. on **22 February 2017** and is signed in conformity by all the Directors, pursuant to Article 253 of the Corporate Enterprises Act.

Borja Prado Eulate **Chairman**	**Francesco Starace** **Vice Chairman**
José Damián Bogas Gálvez **Chief Executive Officer**	**Alejandro Echevarría Busquet** **Director**
Livio Gallo **Director**	**Ignacio Garralda Ruiz de Velasco** **Director**
Francisco de Lacerda **Director**	**Alberto de Paoli** **Director**
Helena Revoredo Delvecchio **Director**	**Miquel Roca Junyent** **Director**
Enrico Viale **Director**	

Madrid, 22 February 2017

ENDESA Group

Auditor's report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2016

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Building a better
working world

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Translation of a report originally issued in Spanish. In the event of discrepancy the Spanish-language version prevails

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" OF THE ENDESA GROUP FOR 2016

To the Directors,

At the request of the management of ENDESA, S.A. (the Parent Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated December 20, 2016, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2016 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the ENDESA Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Company's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's annual financial information for 2016 described in the accompanying ICFR. Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit Committee.
4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board of Directors Meetings, Audit Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and the Circular nº 7/2015, of December 22, of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

February 22, 2017

José Agustín Rico Horcajo

Independent Audit Report

ENDESA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2016

Building a better working world

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Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 39)

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
ENDESA, S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ENDESA, S.A. (the Parent Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2016, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The Directors of the Parent Company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of ENDESA, S.A. and its Subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the Directors of the Parent Company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of ENDESA, S.A. and its Subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the Directors of the Parent Company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of ENDESA, S.A. and its Subsidiaries.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

José Agustín Rico Horcajo

February 22, 2017

ENDESA, S.A.
and
Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016

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

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 DECEMBER 2016 AND 2015

Million Euros

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS		**25,529**	**24,266**
Property, plant and equipment	6	21,891	20,815
Investment property	7	20	21
Intangible assets	8	1,172	428
Goodwill	5 and 9	300	-
Investments accounted for using the equity method	10.1	208	1,087
Non-current financial assets	18	714	629
Deferred tax assets	21	1,224	1,286
CURRENT ASSETS		**5,435**	**4,979**
Inventories	11	1,202	1,262
Trade and other receivables	12	3,452	2,977
Trade receivables		3,055	2,767
Current income tax assets		397	210
Current financial assets	18	363	353
Cash and cash equivalents	13	418	346
Non-current assets held for sale and discontinued operations	32	-	41
TOTAL ASSETS		**30,964**	**29,245**
EQUITY AND LIABILITIES			
EQUITY	**14**	**9,088**	**9,039**
Of the Parent	14.1	8,952	9,036
Share capital		1,271	1,271
Share premium and reserves		7,049	7,223
Profit for the year of the Parent		1,411	1,086
Interim dividend		(741)	(424)
Valuation adjustments		(38)	(120)
Of non-controlling interests	14.2	136	**3**
NON-CURRENT LIABILITIES		**14,355**	**14,335**
Deferred income	15	4,712	4,679
Non-current provisions	16	3,718	3,405
Provisions for pensions and similar obligations	16.1	1,063	839
Other non-current provisions		2,655	2,566
Non-current interest-bearing loans and borrowings	17	4,223	4,680
Other non-current liabilities	20	601	632
Deferred tax liabilities	21	1,101	939
CURRENT LIABILITIES		**7,521**	**5,871**
Current interest-bearing loans and borrowings	17	1,144	-
Current provisions	23	567	638
Provisions for pensions and similar obligations		-	-
Other current provisions		567	638
Trade payables and other current liabilities	22	5,810	5,233
Suppliers and other payables		5,478	4,973
Current income tax liabilities		332	260
Liabilities directly associated with non-current assets classified as held for sale and discontinued operations	32	-	-
TOTAL EQUITY AND LIABILITIES		**30,964**	**29,245**

The accompanying Notes 1 to 39 to the Consolidated Financial Statements are an integral part of the consolidated statements of financial position at 31 December 2016 and 2015.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED

31 DECEMBER 2016 AND 2015

Million Euros

	Notes	2016	2015
INCOME	**24**	**18,979**	**20,299**
Revenue	24.1	18,313	19,281
Other operating revenues	24.2	666	1,018
PROCUREMENTS AND SERVICES		**(13,327)**	**(14,818)**
Power purchased	25.1	(4,056)	(4,795)
Cost of fuel consumed	25.1	(1,652)	(2,123)
Transmission costs		(5,813)	(5,781)
Other variable procurements and services	25.2	(1,806)	(2,119)
CONTRIBUTION MARGIN		**5,652**	**5,481**
Self-constructed assets	3a and 3d.3	117	102
Personnel expenses	26	(1,128)	(1,332)
Other fixed operating expenses	27	(1,209)	(1,212)
GROSS PROFIT FROM OPERATIONS		**3,432**	**3,039**
Depreciation and amortisation, and impairment losses	28	(1,467)	(1,441)
PROFIT FROM OPERATIONS		**1,965**	**1,598**
NET FINANCIAL PROFIT/(LOSS)	**29**	**(182)**	**(186)**
Financial income		44	55
Financial expense		(222)	(229)
Net exchange differences		(4)	(12)
Net profit/(loss) of companies accounted for using the equity method	10.1	(59)	(15)
Gains/(losses) from other investments		2	(1)
Gains/(losses) on disposal of assets	30	(16)	(5)
PROFIT/(LOSS) BEFORE TAX		**1,710**	**1,391**
Income Tax Expense	31	(298)	(301)
PROFIT AFTER TAX FOR THE PERIOD FROM CONTINUING OPERATIONS		**1,412**	**1,090**
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS	**32**	**-**	**-**
PROFIT FOR THE YEAR		**1,412**	**1,090**
Parent Company		1,411	1,086
Non-controlling interests		1	4
BASIC NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		***1.33***	***1.03***
DILUTED NET EARNINGS PER SHARE FOR CONTINUING OPERATIONS (Euros)		***1.33***	***1.03***
BASIC NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		***-***	***-***
DILUTED NET EARNINGS PER SHARE FOR DISCONTINUED OPERATIONS (Euros)		***-***	***-***
BASIC NET EARNINGS PER SHARE (Euros)		***1.33***	***1.03***
DILUTED NET EARNINGS PER SHARE (Euros)		***1.33***	***1.03***

The accompanying notes 1 to 39 to the Consolidated Financial Statements are an integral part of the consolidated statements of financial position for the years ended 31 December 2016 and 2015.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Million Euros

	Notes	31 December 2016			31 December 2015		
		Of the Parent	Of Non-Controlling Interests	Total	Of the Parent	Of Non-Controlling Interests	Total
PROFIT FOR THE YEAR		**1,411**	**1**	**1,412**	**1,086**	**4**	**1,090**
OTHER COMPREHENSIVE INCOME:							
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		**(83)**	**-**	**(83)**	**291**	**-**	**291**
Items that can be reclassified to profit or loss:		**90**	**-**	**90**	**45**	**-**	**45**
From revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets		-	-	-	-	-	-
From measurement of financial instruments		-	-	-	-	-	-
Available-for-sale financial assets		-	-	-	-	-	-
Other income/(expenses)		-	-	-	-	-	-
Cash flow hedges	14.1.6 and 14.1.10	126	-	126	64	-	64
Translation differences		1	-	1	-	-	-
Companies accounted for using the equity method	14.1.6 and 14.1.10	(5)	-	(5)	1	-	1
Other income and expenses recognised directly in equity		-	-	-	-	-	-
Tax effect	14.1.6, 14.1.10 and 31	(32)	-	(32)	(20)	-	(20)
Items not to be reclassified to profit or loss in subsequent periods:		**(173)**	**-**	**(173)**	**246**	**-**	**246**
From actuarial gains and losses and other adjustments	14.1.10 and 16.1	(221)	-	(221)	319	-	319
Tax effect	14.1.10 and 31	48	-	48	(73)	-	(73)
AMOUNTS TRANSFERRED TO INCOME STATEMENT AND/OR INVESTMENTS		**(8)**	**-**	**(8)**	**(91)**	**-**	**(91)**
From measurement of financial instruments		-	-	-	-	-	-
Available-for-sale financial assets		-	-	-	-	-	-
Other income/(expenses)		-	-	-	-	-	-
Cash flow hedges	14.1.6 and 14.1.10	(22)	-	(22)	(147)	-	(147)
Translation differences		-	-	-	-	-	-
Companies accounted for using the equity method	14.1.6 and 14.1.10	9	-	9	15	-	15
Other income and expenses recognised directly in equity		-	-	-	-	-	-
Tax effect	14.1.6, 14.1.10 and 31	5	-	5	41	-	41
TOTAL COMPREHENSIVE INCOME		**1,320**	**1**	**1,321**	**1,286**	**4**	**1,290**

The accompanying notes 1 to 39 to the Consolidated Financial Statements are an integral part of the consolidated statement of comprehensive income for the years ended 31 December 2016 and 2015.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

Million Euros

		Equity attributable to the Parent (Note 14.1)							
		Capital and reserves							
	Notes	Share capital	Share premium, reserves and interim dividend	Treasury shares and own equity instruments	Profit for the year	Other equity instruments	Valuation adjustments	Non-controlling interests (Note 14.2)	Total equity
Balance at 1 January 2016		**1,271**	**6,799**	**-**	**1,086**	**-**	**(120)**	**3**	**9,039**
									-
Adjustments due to changes in accounting policies		-	-	-	-	-	-	-	-
Corrections of errors		-	-	-	-	-	-	-	-
									-
Adjusted balance at 1 January 2016		**1,271**	**6,799**	**-**	**1,086**	**-**	**(120)**	**3**	**9,039**
									-
Total comprehensive income		**-**	**(173)**	**-**	**1,411**	**-**	**82**	**1**	**1,321**
Transactions with shareholders or owners		**-**	**(1,404)**	**-**	**-**	**-**	**-**	**132**	**(1,272)**
Capital increases/(reductions)		-	-	-	-	-	-	-	**-**
Conversion of liabilities into equity		-	-	-	-	-	-	-	-
Dividends paid	14.1.9	-	(1,404)	-	-	-	-	(3)	(1,407)
Transactions with treasury shares or own equity instruments (net)		-	-	-	-	-	-	-	-
Increases/(reductions) due to business combinations	5 and 32	-	-	-	-	-	-	135	135
Other transactions with shareholders or owners		-	-	-	-	-	-	-	-
Other changes in equity		**-**	**1,086**	**-**	**(1,086)**	**-**	**-**	**-**	**-**
Share-based payments		-	-	-	-	-	-	-	-
Transfers between equity items		-	1,086	-	(1,086)	-	-	-	-
Other changes		-	-	-	-	-	-	-	-
Balance at 31 December 2016		**1,271**	**6,308**	**-**	**1,411**	**-**	**(38)**	**136**	**9,088**

The accompanying notes 1 to 39 to the Consolidated Financial Statements are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

Million Euros

		Equity attributable to the Parent (Note 14.1)							
		Capital and reserves							
	Notes	Share capital	Share premium, reserves and interim dividend	Treasury shares and own equity instruments	Profit for the year	Other equity instruments	Valuation adjustments	Non-controlling interests (Note 14.2)	Total equity
Balance at 1 January 2015		**1,271**	**4,042**	**-**	**3,337**	**-**	**(74)**	**(1)**	**8,575**
Adjustments due to changes in accounting policies		-	-	-	-	-	-	-	-
Corrections of errors		-	-	-	-	-	-	-	-
Adjusted balance at 1 January 2016		**1,271**	**4,042**	**-**	**3,337**	**-**	**(74)**	**(1)**	**8,575**
Total comprehensive income		**-**	**246**	**-**	**1,086**	**-**	**(46)**	**4**	**1,290**
Transactions with shareholders or owners		**-**	**(826)**	**-**	**-**	**-**	**-**	**-**	**(826)**
Capital increases/(reductions)		-	-	-	-	-	-	-	-
Conversion of liabilities into equity		-	-	-	-	-	-	-	-
Dividends paid	14.1.9	-	(826)	-	-	-	-	-	(826)
Transactions with treasury shares or own equity instruments (net)		-	-	-	-	-	-	-	-
Increases/(reductions) due to business combinations		-	-	-	-	-	-	-	-
Other transactions with shareholders or owners		-	-	-	-	-	-	-	-
Other changes in equity		**-**	**3,337**	**-**	**(3,337)**	**-**	**-**	**-**	**-**
Share-based payments		-	-	-	-	-	-	-	-
Transfers between equity items		-	3,337	-	(3,337)	-	-	-	-
Other changes		-	-	-	-	-	-	-	-
Balance at 31 December 2015		**1,271**	**6,799**	**-**	**1,086**	**-**	**(120)**	**3**	**9,039**

The accompanying notes 1 to 39 to the Consolidated Financial Statements are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2015.

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

Million Euros

	Notes	2016	2015
Profit before Tax		1,710	1,391
Adjustments for:		1,840	1,952
Depreciation and amortisation, and impairment losses	28	1,467	1,441
Other adjustments (net)		373	511
Changes in working capital		217	396
Trade and other receivables		(57)	(188)
Inventories		(162)	(20)
Current financial assets		336	862
Trade payables and other current liabilities		100	(258)
Other cash flows from/(used in) operating activities:		(772)	(1,083)
Interest received		27	42
Dividends received		22	17
Interest paid		(128)	(188)
Income tax paid		(346)	(603)
Other receipts from and payments for operating activities		(347)	(351)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,995**	**2,656**
Acquisitions of property, plant and equipment and intangible assets		(1,258)	(882)
Proceeds from sale of property, plant and equipment and intangible assets		14	17
Purchase of investments in Group companies		(1,196)	-
Proceeds from sale of investments in Group companies	32	135	1
Purchase of other investments		(173)	(104)
Proceeds from sale of other investments		61	76
Cash flows from changes in the consolidation scope		-	-
Grants and other deferred income		100	119
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(2,317)**	**(773)**
Cash flows from equity instruments	14	-	-
Proceeds from borrowings, non-current	17.1	109	326
Repayment of borrowings, non-current	17.1	(118)	(1,632)
Net cash flows used in current borrowings		492	(74)
Dividends of the Parent paid	14.1.9	(1,086)	(805)
Payments to non-controlling interests		(3)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(606)**	**(2,185)**
TOTAL NET CASH FLOWS		**72**	**(302)**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**72**	**(302)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	13	346	**648**
Cash in hand and at banks		344	390
Cash equivalents		2	258
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13	418	**346**
Cash in hand and at banks		418	344
Cash equivalents		-	2

Notes 1 to 39 to the accompanying financial statements form an integral part of the consolidated statements of cash flow for the years ended 31 December 2016 and 2015.

ENDESA, S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

Contents

ENDESA, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Group activity and financial statements

ENDESA, S.A. (hereinafter, “the Parent Company” or the “Company”) and its subsidiaries make up the ENDESA Group (hereinafter, “ENDESA”). The Company's registered and head offices are at calle Ribera del Loira, 60, Madrid.

The Company was incorporated with limited liability under Spanish law in 1944 under the name Empresa Nacional de Electricidad, S.A. and changed its name to ENDESA, S.A. pursuant to a resolution adopted by the shareholders at the General Meeting of Shareholders on 25 June 1997.

Its corporate purpose is the electricity business in all its various industrial and commercial areas; the exploitation of primary energy resources of all types; the provision of industrial services, particularly in the areas of telecommunications, water and gas and those preliminary or supplementary to the Group’s corporate purpose, and the management of the corporate Group, comprising investments in other companies. ENDESA carries out its corporate purpose in Spain and abroad directly or through its investments in other companies.

ENDESA's Consolidated Financial Statements for the year ended 31 December 2015 were approved by the shareholders at the General Meeting of Shareholders held on 26 April 2016, and filed with the Madrid companies register.

The ENDESA Consolidated Financial Statements for the year ended 31 December 2016, and those of all the companies comprising the Group for 2016, which were used in the preparation of these Consolidated Financial Statements, are pending approval by shareholders at their respective general meetings of shareholders. However, the directors of the Parent Company consider that these Consolidated Financial Statements will be approved as presented without modification.

The presentation currency of the Parent Company is the euro and the figures shown herein (unless stated otherwise) are in millions of Euros.

The Company forms part of the ENEL Group, whose parent is ENEL, S.p.A., which is governed by Italian legislation. Its registered office is at Viale Regina Margherita, 137, Rome, Italy. In Spain, the ENEL Group is headed by ENEL Iberoamérica, S.L.U., with registered office at Calle Ribera del Loira, 60, Madrid. The ENEL Group, through ENEL Iberoamérica, S.L.U., holds 70.101% of ENDESA, S.A.'s share capital. (see Note 14.1.1). The ENEL Group's Consolidated Financial Statements for the year ended 31 December 2015 were approved by the shareholders at the General Meeting of Shareholders held on 26 May 2016 and filed with the Rome and Madrid companies registers.

2. Basis of preparation

2.1. Accounting principles

ENDESA's Consolidated Financial Statements for the year ended 31 December 2016 were authorised for issue by the directors of the Parent Company at a board meeting held on 22 February 2017 and prepared in accordance with the International Financial Reporting Standards ("IFRSs") and the interpretations of the IFRS Interpretations Committee (“IFRIC”) as adopted by the European Union at the reporting date pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council and other applicable regulations regarding financial reporting.

These Consolidated Financial Statements present fairly the equity and financial position of ENDESA at 31 December 2016, as well as the consolidated comprehensive income of its operations, changes in Consolidated Equity and changes in consolidated cash flows for the year then ended.

The Consolidated Financial Statements have been prepared on a going concern basis using the cost method, with the exception of items measured at fair value in accordance with IFRSs, as explained in the measurement bases applied to each, non-current assets and disposal groups classified as held for sale, which are measured at the lower of their carrying amount and fair value less costs to sell (see Notes 3 and 32). Items on the Consolidated Income Statement are classified by types of costs.

ENDESA's Consolidated Financial Statements for the years ended 31 December 2016 and 2015 have been prepared from the accounting records of the Company and those of the rest of the companies comprising ENDESA.

Each subsidiary prepares its financial statements in accordance with the accounting principles and standards prevailing in the country in which it operates. When necessary, in the consolidation process adjustments and reclassifications have been made to the financial statements of subsidiaries to bring their accounting principles and standards into line with IFRSs and IFRIC criteria.

The accounting policies used to prepare the Consolidated Financial Statements are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2015, apart from the new standards adopted by European Union applicable commencing 1 January 2016, detailed below, including the new IFRSs and IFRIC interpretations published in the Official Journal of the European Union and applied by ENDESA for the first time in the 2016 Consolidated Financial Statements.

a) Standards and interpretations endorsed by the European Union applied for the first time in the Consolidated Financial Statements for the year ended 31 December 2016.

Standards, amendments and interpretations	Mandatory application: annual periods beginning on
Annual Improvements to IFRSs, 2010-2012 Cycle *The improvements are designed to address areas of inconsistency in IFRSs or where clarification of wording is required, with amendments to the following standards:* *- IAS 16 Property, plant and equipment* *- IAS 38 Intangible Assets* *- IAS 24 Related Party Disclosures* *- IFRS 2 Share-based Payment* *- IFRS 3 Business Combinations* *- IFRS 8 Operating Segments*	1 February 2015
Modifications to IAS 19 Employee Benefits. Defined Benefit Plans: Employee Contributions. *The amendments simplify the accounting for contributions to defined-benefit plans by employees, which independent of the number of years of employee service, allowing the contributions to be recognised as a reduction in the service cost in the period in which the related service is paid, rather than attributing them to each year of service.*	1 February 2015
Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Biological Assets. *The amendments define a bearer plant and includes them within the scope of IAS 16 Property, Plant and Equipment.*	1 January 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation. *The amendments considerably restrict the use of a revenue-based method to calculate depreciation and amortisation. This is because revenue includes factors other than the consumption of the economic benefits embodied in the asset (inputs, processes, selling activities, changes in sales volumes prices,and inflation).*	1 January 2016
Amendments to IFRS 11 Joint Arrangements: Accounting of Acquisitions of Interests in Joint Operations. *The amendments confirm that a joint operator must account for the acquisition of an interest in a joint operation that constitutes a business by applying all the principles on business combinations accounting in IFRS 3 Business Combinations. The amendments also clarify that previously held interests in Joint Operations are not remeasured on the acquisition of an additional interest in the same operation while retaining joint control. These amendments do not apply when the parties sharing joint control are under common control of the ultimate controlling party.*	1 January 2016
Amendments to IAS 27 Separate Financial Statements: Separate Financial Statements *These amendments allow entities that prepare Separate Financial Statements to use the equity method as described in IAS 28 Investments in Associates and Joint ventures to account for investments in Subsidiaries, Joint ventures and Associates in their Separate Financial Statements.*	1 January 2016
Annual Improvements to IFRSs, 2012-2014 Cycle *The improvements are designed to address areas of inconsistency in IFRSs or where clarification of wording is required, with amendments to the following standards:* *- IFRS 5 Non-current assets held for sale and discontinued operations.* *- IAS 7 Financial Instruments: Presentation.* *- IAS 19 Employee Benefits* *- IAS 34 Interim Financial Reporting.*	1 January 2016
Amendment to IAS 1 Presentation of Financial Statements: Disclosures *The purpose of these amendments is to improve the effectiveness of disclosures and encourage companies to apply professional judgement in determining what information to disclose in their Financial Statements by applying the standard.*	1 January 2016
Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint ventures: Application of the Exception to Consolidation *These amendments aim to clarify the applicable requirements to recognise the investment companies and to foresee exceptions in certain circumstances.*	1 January 2016

The application of the aforementioned standards do not have a significant impact on the Consolidated Financial Statements for the year ended 31 December 2016.

b) Standards and interpretations endorsed by the European Union to be applied for the first time in annual periods beginning in 2018.

Standards, amendments and interpretations	Mandatory application: annual periods beginning on
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

ENDESA's management is assessing the impact that the application of these standards would have, and had not concluded such analysis at the date of preparation of these Consolidated Financial Statements.

IFRS 15 Revenue from Contracts with Customers

ENDESA expects to adopt IFRS 15 Revenue from Contracts with customers on the effective date required. In 2016, ENDESA performed tasks aimed at a preliminary assessment of such impact, although said study is subject to the changes that arise from the more detailed analysis being conducted. Specifically, the procedures being implemented by ENDESA to assess the potential impact of such standards on the Consolidated Financial Statements were aimed at following the single revenue recognition model established by the standard, based on the five-step model:

– Identification of the contracts entered into by ENDESA in all its business lines, differentiating by customer type, valuation of materiality, combinations of contracts, duration and contractual amendments.

– Identification of contractual obligations, differentiation of goods and services offered, and licence and agency agreements, among others.

– Analysis of the determination of the global transaction price, including fixed and variable components, discounts and other advantages.

– Ability to assign the global contract price to the different contract obligations.

– Ability to monitor the contractual obligations for the recognition of revenues and associated costs.

At the same time as this analysis, and since the standard includes more detailed presentation and disclosure requirements than the current standards, ENDESA is also reviewing its information, management and reporting systems in order to assess the effects of the application of IFRS 15 Revenue from Contracts with customers on the obtainment of the information required.

For this purpose, at the date of authorisation for issue of these Consolidated Financial Statements, it is not expected that the adoption of this Standard will materially affect ENDESA's revenue recognition, accordingly, the impact arising therefrom is not expected to be material.

Once the analysis described in the previous paragraphs has been concluded, together with its impact on business processes, technological support and transactional systems, ENDESA will determine the most appropriate transition option for the first-time application of this standard, and it will also adapt its internal control system.

IFRS 9 Financial Instruments

With respect to IFRS 9 Financial Instruments, ENDESA expects to adopt this new Standard on the application date required. In 2016, ENDESA performed a top-level preliminary assessment of the impact of the aspects envisaged by this Standard, basing itself on the information currently available. Accordingly, this assessment must be subject to changes as a result of additional analyses or of complementary information available in the future. Specifically, the procedures being implemented by ENDESA to assess the potential impact of such Standard on the Consolidated Financial Statements were as follows:

– Classification and assessment: Analysis of the business model and of the contractual characteristics of the cash flows from financial instruments, in order to categorise them in accordance with the Standard's classification and assessment requirements. Generally, it is expected to continue measuring at fair value all financial assets that are currently recognised at fair value. Loans and trade receivables are maintained to receive contractual cash flows, accordingly, it is expected that they will continue to be recognised at amortised cost in accordance with the Standard.

– Impairment: Analysis of the impairment calculation model and of the changes required in the systems and processes to recognise expected credit losses. The aggregate of the expected impact in this regard is subject to a more detailed analysis of all items.

– Hedge accounting: Analysis of the existing hedging relationships which, in general terms, are expected to be able to continue being classified as such pursuant to the Standard, and review of the hedging model and of the possible feasible hedging relationships, together with the associated formal documentation.

For this purpose, at the date of authorisation for issue of these Consolidated Financial Statements, it is generally not expected that the adoption of this Standard will have a material impact on such Consolidated Financial Statements, except for the requirements of IFRS 9 Financial Instruments to determine impairment. However, once the analysis described in the previous paragraphs has been concluded, and having reviewed the information systems to ensure adequate compliance with the new breakdown requirements, ENDESA will assess the most appropriate transition options and, subsequently, it will determine the quantitative impact on ENDESA's Consolidated Financial Statements.

c) Standards and interpretations issued by the International Accounting Standards Board (IASB) not endorsed by the European Union

In addition, the International Accounting Standards Board (IASB) has approved the following IFRSs which could affect ENDESA and at the date of issue of these Consolidated Financial Statements had yet to be endorsed by the European Union:

Standards, amendments and interpretations	Mandatory application: (*) Annual periods beginning on or after
IFRS 14 Deferral of Regulated Activities	1 January 2016 (**)
Modifications to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.	1 January 2017
Amendments to IAS 7 Statement of Cash Flows: - Disclosure Initiative	1 January 2017
IFRS 4 Insurance Contracts Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.	1 January 2018
Clarifications of IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint venture	Indefinitely postponed
Annual Improvements to IFRSs, 2014-2016 Cycle The improvements are designed to address areas of inconsistency in IFRSs or where clarification of wording is required, with amendments to the following standards: - IFRS 1 First-Time Adoption of International Financial Reporting Standards - IFRS 12 Disclosure of Interests in Other Entities - IAS 28 Investments in Associates and Joint ventures	1 January 2018 and 1 January 2017
IFRIC 22 Transactions in Foreign Currency and Advances	1 January 2018
Amendments to IAS 40 Investment Property	1 January 2018

(*) If adopted without changes by the European Union.

(**) Adoption process paralysed by the European Union.

At the date of authorisation for issue of the Consolidated Financial Statements, ENDESA’s management is assessing the impact of these standards, if endorsed by the European Union, on the Consolidated Financial Statements.

Based on the analyses carried out to date, ENDESA estimates that their initial application would not have a material impact on its Consolidated Financial Statements, except IFRS 16 Leases. Given the large number of lease arrangements and transactions affected, it has yet to conclude the analysis of their impact on the Consolidated Financial Statements of ENDESA, S.A. and Subsidiaries, or of the option of first-time application to be adopted at the transition date.

IFRS 16 Leases

The work carried out by ENDESA regarding the potential impact of the adoption of IFRS 16 Leases includes, among others, the following tasks:

- Performance of an inventory that includes the type of arrangements affected by this Standard in order that the accumulation of such information facilitates its application.

- Analysis of the lease arrangements and the provision of services by the Company to determine whether they are subject to IFRS 16 Leases. This analysis includes, not only the arrangements in which ENDESA acts as lessee, but also those in which it acts as lessor, in order to assess the possible impact on the conditions of such leases and on the Group's commercial offering.

- Review of the processes and systems, also including that of internal control, in order to assess if they provide all the necessary information for the application of the new Standard, together with the breakdowns required in the financial statements.

- Analysis of the Standard's impact on the financial ratios and covenants in order, where appropriate, to renegotiate them.

- Analysis of other aspects established by the Standard, such as the combination of arrangements and/or agreement amendments to assess their application to specific ENDESA transactions.

- Decision on the transition alternative to be applied on the date of first application.

At the date of preparation of these Consolidated Financial Statements, ENDESA already had an inventory of lease arrangements for review and analysis, and it is completing the inventory relating to other arrangements that can be included in IFRS 16 Leases, and of the agreements entered into as lessor. Likewise, on carrying out such inventory, ENDESA is also revising the information systems available at the organisation, in order to determine the most adequate tool for the management of the required information and the processes affected to adapt it. Once the aforementioned activities have been performed, and based on the scope of conclusions thereon, ENDESA will adopt a decision on the transition alternative and will adopt its internal control systems accordingly.

For such purpose, based on the transition option selected, ENDESA will estimate the impact of the application of IFRS 16 Leases (see Note 6.1. relating to the general description of the main lease arrangements, details of annual lease expenses and information on non-cancellable future minimum payments for operating leases).

2.2. Responsibility for information and estimates

The Parent Company’s management is responsible for the contents of the Consolidated Financial Statements and expressly states that all IFRS principles and criteria have been applied.

In preparing these Consolidated Financial Statements, ENDESA’s directors made estimates to measure certain assets, liabilities, income, expenses and commitments included therein. These estimates were essentially as follows.

- Measurement of assets to determine any impairment losses (see Note 3e).

- Assumptions used in the actuarial calculation of liabilities and obligations to employees and the leaving dates and conditions for employees involved in personnel restructuring plans (see Notes 3l.1, 3l.2 and 16.2).

- Useful lives of property, plant and equipment and intangible assets (see Notes 3a and 3d).

- Assumptions used to calculate the fair value of financial instruments (see Notes 3g and 18.6).

- Unmetered power supplied to customers (see Note 3p).

- Certain figures for the electricity system, including those relating to other companies, such as output, billing to customers, power consumed, distribution activity incentives, etc., which can be used to estimate the overall settlements in the electricity system to be made in the corresponding final statements. These settlements, which are pending at the date of authorisation for issue of the Consolidated Financial Statements, could affect the assets, liabilities, income and expenses related with electricity system activities (see Note 4).

- Interpretation of existing or new electricity system regulations, the final economic effects of which will ultimately depend on rulings by the authorities responsible for settlements. Certain rulings are pending at the date of authorisation of these Consolidated Financial Statements (see Note 4).

- The likelihood and amount of undetermined or contingent liabilities (see Notes 3l and 16.3).

- Future costs for decommissioning and restoration of land (see Notes 3a, 3b, 3d, 3l.4 and 16.3).

- The hypotheses used to measure deferred tax assets and tax credits (see Note 3o).

– Taxable income of the ENDESA companies to be declared to the taxation authorities in the future and used as the basis of income tax balances recognised in the accompanying Consolidated Financial Statements (see Notes 3o, 21 and 31).

Although these estimates have been based on the best information available at the date of preparation of the Consolidated Financial Statements, future events could require the estimates to be increased or decreased in subsequent years. Changes in estimates are made prospectively and the effects recognised in the corresponding Consolidated Financial Statements for future years.

2.3. Subsidiaries

Subsidiaries are the investees in which the Parent Company controls, directly or indirectly, more than half of the voting rights, has power over the investee, it is exposed, or has the power to govern its main activities. It is also exposed to variable returns from an investee when the returns vary in accordance with the investee's economic trajectory and it can use its power to influence the investee's variable returns.

Control arises from substantive rights over the investee, whereby ENDESA applies its own judgement to assess whether these substantive rights give it the power to govern the investee's main activities in order to affect its returns. To this end, consideration is taken of all the facts and circumstances involved to assess whether or not it controls an investee, analysing factors such as contracts with third parties, rights arising from other contractual agreements, and real and potential voting rights, considered as potential voting rights held by ENDESA or third parties that are exercisable or convertible at year-end.

When events occur that affect control of the investee, exposure to variable returns due to continued involvement, or the ability to use control of the investee to influence its returns, the existence of control of the investee is reassessed.

Subsidiaries are fully consolidated as described in Note 2.7.

At 31 December 2016 and 2015, ENDESA had no Structured Entities as defined in IFRS 12 Disclosure of Interests in Other Entities, designed in such a way that voting rights and similar rights do not constitute the main factor for the purposes of defining control.

Appendix I to these Consolidated Financial Statements lists ENDESA's subsidiaries.

2.3.1. Changes in consolidation scope

Appendix III to the Consolidated Financial Statements details changes in the consolidated group during 2016.

This section addresses changes in the consolidated group during 2016 and 2015.

2016

Companies added

As a result of the purchase of 60% of the holding in ENEL Green Power España, S.L.U. (EGPE) on 27 July 2016, and which gave it control of such holding rather than the significant influence it exercised there over until now (see Notes 2.4 and 10.1), all of ENEL Green Power España, S.L.U. (EGPE)'s share capital was included in the scope of consolidation and of the holdings controlled by the latter.

Appendix IV to these Consolidated Financial Statements lists ENDESA's subsidiaries that form part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

Also on 28 July 2016, ENDESA acquired all the share capital of Eléctrica del Ebro, S.A., which meant the inclusion in the scope of consolidation of this company and of its subsidiary Energía Eléctrica del Ebro, S.A.

The impacts of these operations are detailed in Note 5.

Companies excluded

On 29 December 2016, equity interests were sold representing 64.07% of Energía de la Loma, S.A. and 68.42% of Energías de la Mancha Eneman, S.A., previously acquired on 27 July 2016 in the framework of the takeover of ENEL Green Power España, S.L.U. (EGPE) (see Note 32).

The financial indicators for these companies were not material.

Changes

During 2016, the following changes arose in the percentage of control and economic ownership in the companies included in the consolidation scope:

Changes in consolidation scope (*)	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
ENDESA Generación Portugal, S.A.	100.00	100.00	99.40	99.40
Hidromondego – Hidroeléctrica do Mondego, Lda.	100.00	100.00	100.00	99.94

(*) As a result of the purchase of 60% of the holding in ENEL Green Power España, S.L.U. (EGPE) (see Note 5).

2015

Companies added

On 1 November 2015, the following were included in the scope of consolidation: Madrileña Suministro de Gas, S.L.U. and Madrileña Suministro de Gas Sur, S.L.U. (see Note 5), which were immediately merged after their acquisition, as indicated in the following section.

Companies excluded

The following mergers between subsidiaries took place in 2015:

Acquirers	Effective merger date	Acquirees	% Ownership 31 December 2014 (Acquiree)	
			Control	Ownership
ENDESA Generación, S.A.U.	1 January 2015	Carboex, S.A.U.	100.00	100.00
		Andorra Desarrollo, S.A.U.	100.00	100.00
ENDESA Red, S.A.U.	1 January 2015	ENDESA Gas, S.A.U.	100.00	100.00
ENDESA Servicios, S.L.U.	1 January 2015	Bolonia Real Estate, S.L.U.	100.00	100.00
ENDESA Energía, S.A.U.	1 November 2015	Madrileña Suministro de Gas, S.L.U. (*)	-	-
ENDESA Energía XXI, S.L.U.	1 November 2015	Madrileña Suministro de Gas Sur, S.L.U. (*)	-	-

(*) Companies included in the consolidation scope at 01 November, 2015 (see Notes 5 and 8.1).

The following subsidiaries were dissolved in 2015:

Companies dissolved	Percentage stake at 31 December 2014	
	Control	Ownership
Apamea 2000, S.L.U.	100.00	100.00
Nueva Compañía de Distribución Eléctrica 4, S.L.U.	100.00	100.00

The financial indicators for these companies were not material.

Lastly, on 5 August 2015, ENDESA sold its entire ownership interest in Gasificadora Regional Canaria, S.A. The financial indicators for this company were not material.

Changes

During 2015, there were no changes in the percentage control and economic ownership in the companies included in the consolidation scope.

2.3.2. Non-consolidated companies in which the Group holds an interest of more than 50%

Although ENDESA owns more than 50% of Asociación Nuclear Ascó-Vandellós II, A.I.E., it is considered to be a Joint Operation Entity (see Note 2.5) because, through shareholder pacts or agreements, ENDESA exercises joint control with the other party and has rights to its assets and has obligations in respect of its liabilities.

2.4. Associates

Associates are entities in which the Parent Company has significant influence, directly or indirectly. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by ENDESA or other entities, are taken into account when assessing whether it has significant influence. In general, where ENDESA holds a stake above 20%, it is presumed that it has significant influence.

Associates are accounted for in these Consolidated Financial Statements using the equity method, as described in Note 3h.

Appendix II to these Consolidated Financial Statements lists ENDESA's associates at 31 December 2016.

Appendix III to the Consolidated Financial Statements details inclusions, exclusions and changes in the investments in associates during 2016.

2016

Companies added

Following the takeover of ENEL Green Power España, S.L.U. (EGPE) described in Note 5, its associated companies have been included. Appendix IV to these Consolidated Financial Statements lists ENDESA's associates that form part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

Companies excluded

Following the obtainment of control of ENEL Green Power España, S.L.U. (EGPE) through the acquisition described in Note 5, this company began to be considered a subsidiary (see Notes 2.3 and 10.1).

On 30 December 2016, the dissolution of Enerlasa, S.A. was registered (in liquidation).

Changes

During 2016, there were no other changes in the percentage control and economic ownership in associates.

2015

Companies added

No associates were added to the consolidation scope.

Companies excluded

In 2015, the following companies were excluded from the consolidation scope:

Exclusions from the scope of consolidation	% Ownership at 31 December 2015		% Ownership at 31 December 2014	
	Control	Ownership	Control	Ownership
Ayesa Advanced Technologies, S.A.	-	-	22.00	22.00
Compañía Transportista de Gas Canarias, S.A. (*)	-	-	47.18	47.18
Oficina de Cambios de Suministrador, S.A.	-	-	20.00	20.00

(*) See Note 30.

The financial indicators for these companies were not material.

Changes

The percentage ownership in Gorona del Viento El Hierro, S.A. changed during 2015, from 30% to 23.21%.

2.5. Joint arrangements

A joint arrangement is an agreement that gives two or more parties joint control, whereby the unanimous consent of all parties sharing control is required for decisions to be taken with respect to major activities. Joint arrangements may be joint operations or joint ventures, depending on the rights and obligations of the parties to the Agreement.

In order to determine the type of joint arrangement from a contractual arrangement, Management assesses the legal contents and structure of the arrangement, the terms agreed by the parties and other relevant factors and issues. If any changes are made to the contractual features of a joint arrangement, these factors and issues are reassessed.

Appendix III to the Consolidated Financial Statements details the inclusions, exclusions, and changes in the ownership percentage stakes in joint arrangements during 2016.

Joint operations

Joint operations are entities governed by a joint arrangement whereby ENDESA and the other parties have rights to their assets and obligations with respect to the liabilities.

The assets and liabilities concerned by joint operations are consolidated proportionately, as described in Note 2.7.

Appendix I to these Consolidated Financial Statements lists ENDESA's joint operations at 31 December 2016 and 2015.

2016 and 2015.

During 2016 and 2015, no joint ventures were included in consolidation scope, and there were no exclusions or changes in the control and ownership percentage stakes.

Joint ventures

Joint ventures are companies governed by a joint arrangement whereby ENDESA and the other parties have rights to the net assets. Joint ventures are accounted for in these Consolidated Financial Statements using the equity method, as described in Note 3h.

Appendix II to these Consolidated Financial Statements lists ENDESA's joint ventures at 31 December 2016 and 2015.

2016

Companies added

Following the acquisition of ENEL Green Power España, S.L.U. (EGPE) described in la Note 5, the joint ventures indicated in Appendix IV to these Consolidated Financial Statements were registered.

Companies excluded

On 24 May 2016, ENEL Investment Holding B.V. sold the following stake (see Notes 10.1 and 30):

Exclusions from the scope of consolidation	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
ENEL INSURANCE N.V.	-	-	50.00	50.00

The result contributed by the company during the financial year 2016 and up to the date of the sale of this participation has amounted to Euros 12 million. The positive result generated by the sale of this stake amounted to Euros 9 million (see Note 10.1).

Changes

During 2016, the following changes arose in the percentage of control and economic ownership in the companies included in the consolidation scope:

Changes in consolidation scope (*)	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
Carbopego – Abastecimientos de Combustiveis, S.A.	50.00	50.00	50.00	49.99
Elecgas, S.A.	50.00	50.00	50.00	49.70
Pegop – Energía Eléctrica, S.A.	50.00	50.00	50.00	49.99

(*) As a result of the purchase of 60% of the holding in ENEL Green Power España, S.L.U. (EGPE) (see Note 5).

Also on 30 March 2016, ENDESA acquired shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A. (see Note 10.1):

Changes in consolidation scope	% Ownership at 31 December 2016		% Ownership at 31 December 2015	
	Control	Ownership	Control	Ownership
Tejo Energia – Produçao e Distribuçao de Energia Eléctrica, S.A.	43.75	43.75	38.89	38.89

2015

During 2015, no joint ventures were included in consolidation scope, and there were no exclusions or changes in the control and ownership percentage stakes.

2.6. Other investments

The impact of the financial indicators of ENDESA's investees that are not considered subsidiaries, joint operation entities, joint ventures or associates on the fair presentation required of the Consolidated Financial Statements is minimal.

2.7. Basis of consolidation and business combinations

Subsidiaries are fully consolidated from the date of acquisition, being the date on which ENDESA obtains control, and all their assets, liabilities, income, expenses and cash flows are included in the Consolidated Financial Statements after the adjustment and elimination of intragroup transactions.

Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Joint operation entities are consolidated using proportionate consolidation. ENDESA combines the proportionate share of each of the assets, liabilities, income, expenses and cash flows in its Consolidated Financial Statements, after the adjustment and elimination of intragroup transactions.

The operations of the Parent Company and its subsidiaries are consolidated in accordance with the following basic principles:

– At the acquisition date, the assets, liabilities and contingent liabilities of the subsidiary are measured at fair value, except certain assets and liabilities which are measured according to the principles set out in IFRS. If fair value is determined on a provisional basis, the value of the business combination is measured using provisional values. Any adjustments arising from completion of the valuation process are carried out within 12 months of the business combination, and consequently the comparative figures are restated. Where the acquisition cost of the subsidiary exceeds the fair value of the Parent Company's share of its assets and liabilities, including contingent liabilities, the difference is recognised as goodwill. Where the acquisition cost is lower, the difference is recognised in the consolidated income statement. Costs attributable to the acquisition are recognised as an expense as incurred.

– Any contingent consideration arising from a business combination is recognised at fair value at the acquisition date. Payment obligations arising from a contingent consideration are recognised as liabilities or equity in the consolidated statement of financial position, as per the definition of these items in IAS 32 Financial Instruments: Presentation. Collection rights in connection with a contingent consideration arising from the return of considerations previously transferred are recognised as asset in the consolidated statement of financial position.

– Non-controlling interests in the fair value of the net assets acquired and the profit or loss of fully consolidated subsidiaries are recognised in equity: non-controlling interests in the consolidated statement of financial position and non-controlling interests in the consolidated statement of other comprehensive income, respectively.

– The financial statements of foreign companies with a functional currency other than the euro are translated to Euros as follows:

  - Assets and liabilities at the rate of exchange prevailing at the reporting date.

  - Income and expenses at the average exchange rate for the year.

  - Equity at the historical rate at the acquisition date and retained earnings and contributions at the average exchange rate for the year, as appropriate.

    Exchange differences arising on the retranslation of financial statements are shown net of the related tax effect under translation differences in other comprehensive income in the consolidated statement: Other comprehensive income

    Translation differences arising prior to 1 January 2004 were reclassified to reserves as on first-time adoption of IFRSs, the Company applied the exemption provided for the conversion of financial statements prepared under Spanish GAAP to IFRS.

– All balances and transactions between fully consolidated companies, or the related portion in the case of proportionately consolidated companies, were eliminated on consolidation.

– When a transaction results in the loss of control of a subsidiary, any investment retained in the company is measured at its fair value at the date when control is lost. The difference between the fair value of the consideration received plus the fair value of the investment retained and the carrying amounts of the non-controlling interests in the former subsidiary, and the assets and liabilities derecognised from the consolidated statement of financial position following the loss of control of the previously controlled subsidiary is recognised under gains/(losses) on disposal of assets in the consolidated income statement. Amounts recognised in the statement of other comprehensive income are booked as if the assets and liabilities concerned had been disposed of.

– When a transaction takes place that acquires control of a company in which a shareholding was previously held, the initial registration of the previous shareholding is made at the fair value at the time of the takeover. The difference between such fair value and the carrying amount of the investment previously held is recorded in the Consolidated Income Statement. The amounts recognized in "Other comprehensive income" are recorded as if the related assets and liabilities had been disposed of.

– If the transaction is carried out between entities or businesses under common control, the economic substance of the business combination is analysed in order to determine the allocation of the fair value of the acquired net assets.

– Changes in investments in subsidiaries that do not result in the Parent gaining or losing control of the subsidiary are accounted for as equity transactions, with the carrying amounts of the controlling and non-controlling interests adjusted to reflect changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity of the parent.

3. Measurement criteria

The main measurement criteria used in preparing the accompanying Consolidated Financial Statements were as follows:

a) Property, plant and equipment

a.1. Acquisition costs

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. In addition to the price paid for the acquisition of each item, cost also includes, where appropriate, the following items:

- Borrowing costs accrued during the construction period that are directly attributable to the acquisition, construction or production of qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use; e.g. electricity generating and distribution facilities. The interest rate used is that applicable to the specific purpose financing or, in the absence of such a rate, the average financing rate of the company making the investment. The average lending rate in 2016 was 2.5% (2.7% in 2015). Euros 6 million were capitalised in this respect in 2016 and Euros 5 million in 2015 (see Note 29).

- Personnel expenses relating directly to work in progress. The amounts capitalised are recognised under personnel expenses in the consolidated income statement and self-constructed assets in the consolidated statement of financial position. In 2016, the amount capitalised in this respect amounted to Euros 98 million (Euros 90 million in 2015).

- ENDESA recognises the costs it will incur in the future to decommission its facilities in the cost of the asset, at present value, and recognises the related provision. ENDESA reviews its estimate of these future costs annually, increasing or decreasing the value of the related asset based on the outcome of the review. For nuclear power plants, this provision includes the amount that ENDESA estimates it will have to pay until the government-owned company Empresa Nacional de Residuos Radioactivos, S.A. undertakes responsibility for decommissioning these plants pursuant to Royal Decree 1349/2003 of 31 October, Law 24/2005 of 18 November and Law 15/2012 of 27 December (see Note 16.3).

The acquisition cost of assets acquired before 31 December 2003 includes any asset revaluations permitted in the various countries to adjust the value of the property, plant and equipment for the effect of inflation until that date.

Assets under construction are transferred to property, plant and equipment in use once the trial period has ended and they are available for use, at which time depreciation begins.

Costs of expansion, modernisation or improvements which increase the productivity, capacity or efficiency or lengthen the useful lives of assets are capitalised as an increase in the cost of the related assets.

Replacements or renewals of complete items that extend the useful life or increase the economic benefits of the assets are recognised as increases in the value of property, plant and equipment and the items replaced or renewed are derecognised.

Regular maintenance, upkeep and repair expenses are recognised in the income statement are expensed as incurred.

Indivisible assets shared by ENDESA with other owners are recognised in proportion to ENDESA's ownership of those assets (see Note 6).

Based on the results of the impairment test described in Note 3e, the Parent Company's directors consider that the carrying amount of the assets does not exceed their recoverable amount.

a.2. Depreciation

Property, plant and equipment, less their residual value where appropriate, are depreciated when they are available for use on a straight-line basis over their estimated useful lives, which are the periods of expected use. Useful lives are reviewed regularly when there are indications of possible variations, and adjusted prospectively, as appropriate. The useful lives of assets for the purposes of calculating depreciation are as follows.

	Years of estimated useful life	
	2016	**2015**
Generating facilities:		
Hydroelectric power plants		
Civil engineering works	65	65
Electromechanical equipment	35	35
Coal-fired power plants	25-59	25-59
Nuclear power plants	50	50
Combined cycle plants	40	40
Renewable energy plants		
Photovoltaic	20	20
Wind	25	-
Transmission and distribution facilities		
Low and medium-voltage network	40	40
Measuring and remote control equipment	6-15	6-15
Other facilities	25	25

Land has an indefinite useful life and is therefore not depreciated.

a.3 Other aspects

Pursuant to Law 29/1985 of 2 August 1985, partially amended by Law 46/1999 of 13 December 1999, all Spanish hydroelectric power plants are operated under temporary service concession arrangements. The terms and conditions of these arrangements require that the plants revert to State ownership in good working order when the concessions expire, and at 31 December 2016, their reversion period was established as between 2017 and 2067. The plants are depreciated over the shorter of the concession term and their useful economic life.

ENDESA assessed the specific situations of these concessions, and concluded that the decisive factors for application of IFRIC 12: Service Concession Arrangements (see Note 3d.1).

Items under property, plant and equipment are derecognised when they are sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when they are used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of property, plant and equipment are recognised in profit or loss and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

b) Investment property

"Investment property" comprises the land and buildings not expected to be recovered in the ordinary course of ENDESA's statutory activity.

Investment properties are measured at acquisition cost less any accumulated depreciation and any accumulated impairment losses.

The market values of investment property were calculated based on external appraisals carried out during the last quarter of 2016 (see Notes 7.1 and 18.6.2).

To determine the fair market value of real estate investments, appraisals from officially renowned independent experts were requested, to include their best estimate of value based on a greater/lesser use of the property in question with regard to its urban location and current state, in the case of construction.

Investment property (excluding land) is depreciated on a straight-line basis over the useful lives of the assets, which are estimated using the same criteria as for property, plant and equipment.

Investment property is derecognised when it is sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when it is used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of investment property are recognised in profit or loss and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

c) Goodwill

Goodwill on consolidation represents the excess of the acquisition cost over (under) the acquisition-date fair value of ENDESA's interest in the identifiable assets acquired and liabilities assumed, including contingent liabilities, of a subsidiary or jointly-controlled entity.

The assets and liabilities acquired are measured provisionally at the date on which control of the company is obtained, and reviewed within a maximum period of one year from the acquisition date. The difference between the acquisition cost and the carrying amount of the acquiree is recognised provisionally as goodwill, until the actual fair value of the assets and liabilities is determined.

When the actual amount of goodwill is determined in the Consolidated Financial Statements for the year following that of the acquisition of the interest, the previous year's financial statements presented for comparison purposes are adjusted to include the value of the assets and liabilities acquired and the definitive goodwill from the date of acquisition of that interest.

Goodwill arising on the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the acquiree and translated to Euros at the exchange rate prevailing at the reporting date.

Goodwill is not amortised, but allocated to each cash-generating unit ("CGUs" or "CGU") or groups of cash-generating units. At the end of each reporting period, CGUs are tested for impairment and written down if recoverable amount has been reduced below carrying amount (see Note 3e).

At 31 December 2016, the goodwill recognised in the consolidated statement of financial position was generated as a result of the takeover of ENEL Green Power España, S.L.U. (EGPE) and Eléctrica del Ebro, S.A. (see Note 5).

At 31 December 2015, ENDESA had no goodwill in its consolidated statement of financial position.

d) Intangible assets

Intangible assets are initially recognised at cost of acquisition or production and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful lives, except for those with indefinite useful lives, which are not amortised.

At 31 December 2016 and 2015, there were no intangible assets with indefinite useful lives.

The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years are described in section e) of this note.

Intangible assets are derecognised when they are sold or otherwise disposed of, or when no further economic benefits are expected to be obtained when they are used, sold or otherwise disposed of.

Any gains or losses arising on the disposal or retirement of intangible assets are recognised in profit or loss for the year and are calculated as the difference between the net disposal proceeds and the carrying amount of the assets.

d.1. Concessions

IFRIC 12 Service Concession Arrangements gives guidance on the accounting by operators for public-to-private service concession arrangements. This accounting interpretation applies to concessions in which:

- The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where both the above conditions are met simultaneously, the consideration received by ENDESA for the construction of infrastructure is recognised at fair value as an intangible asset, to the extent that the operator has received a right to charge users for the public service, contingent on the extent that the public uses the service, or as a financial asset, to the extent that it has an unconditional contractual right to receive cash or another financial asset from the grantor or a third party. ENDESA's contractual obligations for maintenance of the infrastructure while it is in operation or for its return to the grantor at the end of the concession arrangement in the conditions specified therein, provided that these activities do not generate revenue, are recognised applying the accounting policy for provisions (see Note 3l).

At 31 December 2016 and 2015, ENDESA had no intangible assets in relation to its concession arrangements as a result of applying IFRIC 12 Service Concession Arrangements.

Borrowing costs are capitalised using the criteria specified in letter a) of this note, provided that the concession operator has a contractual right to receive an intangible asset. No borrowing costs were capitalised in 2016 and 2015.

No personnel expenses were capitalised in 2016 and 2015.

Concessions are amortised over the term of the concession.

Concession contracts that are not subject to IFRIC 12 Service Concession Arrangement are recognised using general criteria. ENDESA depreciates any assets recognised as property, plant and equipment (see Note 3a) on a straight-line basis over the shorter of the asset's economic life or the concession term. When calculating asset impairment, ENDESA's contractual obligations to invest in, improve or replace assets are considered to produce the future cash outflows required to generate cash inflows. Assets whose right to use has been conveyed by ENDESA in exchange for consideration are accounted for using the criteria specified in Note 3f.

d.2. Research and development costs

Development expenditures on projects are recognised as an intangible asset when ENDESA is reasonably assured of the technical feasibility of completing the project and that the project will generate future economic benefits.

Development expenditures are amortised over their useful life in accordance with a systematic plan which, in most cases, has been estimated at five years.

Research costs are recognised as expenses in the consolidated income statement. Research costs in the consolidated income statement amounted to Euros 16 million in 2016 (2015: Euros 22 million).

d.3. Other intangible assets

These assets chiefly correspond to:

- Software, which is initially recognised at cost of acquisition or production and subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. Software is amortised over its useful life which, in most cases, has been estimated at five years. During 2016 and 2015, respective personnel expenses amounting to Euros 19 and 7 million were capitalised.

- Customer portfolios acquired through business combinations are initially recognised at their fair value at the acquisition date. They are subsequently carried at cost less accumulated amortisation and any accumulated impairment losses. The depreciation of these portfolios takes place over their useful lives, and ranges from 15 to 25 years, based on their gradual decrease.

e) Impairment of non-financial assets

ENDESA assesses throughout the year and, in any case, at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount to determine the extent of any impairment loss. For assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the Group estimates the recoverable amount of the CGU to which the asset belongs; i.e. the smallest identifiable group of assets that generates independent cash inflows.

Nonetheless, it estimates the recoverable amount of the CGUs to which goodwill or intangible assets with indefinite useful lives have been allocated systematically at each reporting date.

e.1. Cash-Generating Units (CGUs)

ENDESA considers that the assets of electricity generation business belonging to a single interconnected system and the assets of electricity distribution in each country that receive joint remuneration represent a CGU. The major CGUs at 31 December 2016 and 2015 were as follows:

- Generation: There is a CGU for generation on the Iberian Peninsula and another CGU for each of the non-mainland systems (Balearic Islands, Canary Islands, Ceuta and Melilla). All assets at each of the CGUs are managed on a joint basis, irrespective of the type of technology used (hydro, coal, fuel-oil, nuclear, combined cycle and renewable energy), depending on the availability of the facilities, weather conditions and demand, and on the need to cover the System's technical restrictions, among other aspects. The joint management and diversification of the generation portfolio enables ENDESA to respond in a flexible way to the demand requirements through offers on different markets, coordinated by a single representative and liquidating party, thereby guaranteeing a secure supply. Likewise, decisions are taken on operations based on the installed capacity of the whole generation park. This means that the total generation in each of the geographic areas mentioned above constitutes a CGU.

– Distribution; The assets of the distribution network constitute a single CGU, as their individual assets do not generate independent cash inflows. The distribution network is composed of interrelated interdependent assets in respect of which activities, operation and maintenance are managed on a joint basis.

e.2 Calculation of the recoverable amount

The recoverable amount is the higher of fair value, less costs to sell and value in use. Value in use is the present value of estimated future cash flows.

In estimating value in use, ENDESA prepares pre-tax cash flow projections based on the latest budgets available. These budgets include ENDESA management's best estimates of the income and expenditure of the CGUs according to industry projections, past experience and future expectations.

These projections generally cover the next 5 years. Cash flows are estimated to the end of the useful lives of the assets or the end of the concession, as appropriate, applying reasonable growth rates based on assumptions regarding average long-term growth rates and forecast inflation for the industry and country concerned.

The estimated future cash flows are discounted to present value using a pre-tax rate that reflects the cost of capital of the business and its geographical area. It considers the current time value of money and the risk premiums generally used by analysts for the business and the geographical area.

The discount rates applied in 2016 and 2015 fall within the following ranges:

	Currency	31 December 2016		31 December 2015	
		Minimum (%)	Maximum (%)	Minimum (%)	Maximum (%)
Generation	Euro	6.2	7.8	6.1	8.6
Distribution	Euro	5.9	8.1	6.9	7.1

An analysis of the parameters comprising the 2016 discount rates reveals that the risk-free rate decreased slightly from 2.57% in 2015 to 2.20% in 2016. The business' risk premium, which constitutes the specific risk of the assets and is based on deleveraged betas considered for companies with similar activities, decreased in both regulated and deregulated businesses.

The growth rates (g rates) used in the 2016 and 2015 financial years used to extrapolate the cash flow projections were 1.4% and 1.8% respectively. These growth rates, which do not surpass the average growth rate of the sector and markets in which ENDESA operates are in line with Spain's long-term inflation as well as market estimates.

The approach used to allocate values to the key assumptions considered:

- Trend of demand for electricity and gas: estimated growth was calculated on the basis of the growth forecast for Gross Domestic Product (GDP) and other assumptions used by ENDESA with respect to trends in consumption of electricity and gas in these markets.

- Regulatory measures: a substantial part of ENDESA's business is regulated and subject to wide-ranging complex regulations, which may be amended by the introduction of new laws, by amendments to existing laws in such a way that forecasts contemplate proper application of current regulations, and any other laws now in process that may come into force during the projected period.

- Average rainfall and wind potential levels: forecasts are drawn up on the basis of an average rainfall year taking into account historical meteorological conditions. However, the actual rainfall and wind potential levels of the preceding year were used for the first year of the projection, adjusting the average year accordingly.

- Installed capacity: ENDESA's installed capacity estimate takes into account existing facilities and plans to increase and terminate capacity. The investment plan is updated continuously on the basis of the trajectory of the business and changes to the development strategy undertaken by Management. Generating activity takes account of the investment required to maintain installed capacity in proper operating conditions, distribution activity considers investment in maintenance, improvement and enhancement of the network, and investment required to implement the remote metering plan, and marketing activity takes account of the investment required to bring about added-value products and services.

- The production mix was determined using complex specifically-developed internal forecast models that consider factors such as prices and availability of commodities (e.g. Brent, gas, coal), forecast demand, planned construction or the commissioning of new capacity in the various technologies. These models are constantly changing, factoring in changes in variables such as availability of the production base, availability of fuels or start-up of operation of new plants. They provide signals on prices in the system and estimates of production costs, on which output forecasts for generation facilities are based.

- Assumptions for energy sale and purchase prices are made based on complex specifically-developed internal forecast models. The planned pool price is estimated on the basis of a number of decisive factors such as the costs and outputs of technologies and demand for electricity, among others.

- The prices at which electricity and gas are sold are determined on the basis of the prices established in sales contracts and future energy prices.

- Fuel costs are estimated taking into consideration existing supply contracts, and long-term forecasts are made for oil, gas or coal prices based on forward markets and estimates available from analysts.

- Fixed costs: these are projected considering estimated levels of activity for each company in terms of trends in personnel, as well as other operating and maintenance costs, forecast inflation and long-term maintenance contracts or other types of contracts.

- External sources (analysts, official national or international bodies, etc.) are always used to compare macroeconomic assumptions, such as price trends, growth in gross domestic product (GDP) and demand, inflation, interest rates and exchange rates, among others.

Past experience indicates that the Company's projections are reliable and of high quality, enabling the Company to base its key assumptions on historical information.

During 2016, the discrepancies observed with respect to the results of the forecasts used to carry out impairment tests at 31 December 2015 were not significant, except regarding forecasts relating to the performance of energy sale prices in the first half of 2016, which experienced a drop of approximately 15%-20% in comparison with the forecasts made at 31 December 2015, as a result of an exceptionally low "thermal gap" situation due to the high hydraulic and wind production of the period, moderate demand and the reduction in commodity prices in international markets, although this trend did soften slightly in the second half of the year. However, both the results and cash flows generated in 2016 were similar to those envisaged for that year in the impairment tests performed during the preparation of the Consolidated Financial Statements for the year ended 31 December 2015.

At 31 December 2016, ENDESA estimates that any reasonable change that is possible in this key assumption, on which the recoverable amount is based, would not cause the carrying amount of non-financial assets to increase above their recoverable value.

At 31 December 2016, ENDESA had performed a sensitivity analysis of the results of the impairment test conducted of the Cash-Generating Units (CGU) described at a variation of 50 basis points in the discount and growth rates considered. The results of these sensitivity analyses indicate that an adverse modification of the values considered for the discount and growth rates used of 50 basis points would lead to an impairment of assets.

e.3. Recognition of impairments

If the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised for the difference under depreciation and amortisation, and impairment losses in the consolidated income statement. The impairment loss is first allocated to reduce the goodwill allocated to the CGU and then to reduce the carrying amounts of the CGU's remaining assets on a pro rata basis of value in use up to fair value less costs to sell. The resulting amount cannot be negative.

A previously recognised impairment is reversed if there has been a change in the estimate of the asset's recoverable amount. A reversal of an impairment loss is recognised by increasing the carrying amount of the asset with a credit to income. The reversal is limited to the carrying amount of the asset had no impairment loss been recognised. Impairment losses relating to goodwill cannot be reversed.

f) Leases

Leases that transfer substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. All other leases are classified as operating leases.

ENDESA assesses the substance of leases that grant the right to use certain assets to determine the existence of implicit leases. In these cases, at inception of the lease, ENDESA separates the lease payments and consideration related to the lease from any other elements in the arrangement.

Finance leases in which ENDESA is the lessee are recognised at the commencement of the lease term. ENDESA recognises an asset according to its nature and a liability for the same amount, equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised as an expense and allocated to income over the lease term so as to obtain a constant interest rate each year applicable to the remaining balance of the liability. The asset is depreciated in the same way as the other similar depreciable assets if there is reasonable certainty that the lessee will acquire title to the asset at the end of the lease term. If no such certainty exists, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis of allocation is more representative.

Contingent rents are recognised as an expense when it is likely that they will be incurred.

g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

g.1. Non-derivative financial assets

For measurement purposes, ENDESA classifies its financial assets at the moment of initial recognition, whether permanent or temporary, excluding investments accounted for using the equity method (see Notes 3h and 10.1) and assets held for sale (see Notes 3j and 32), into four categories:

- Loans and receivables: Loans and receivables are measured at amortised cost, which is the initial fair value, less repayments of the principal, plus the accrued interest receivable calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

- Held-to-maturity investments: These are investments that ENDESA has the positive intention and ability to hold until maturity, and which are measured at amortised cost as defined above. ENDESA did not have any significant investments of this type at 31 December 2016 and 2015.

- Financial assets at fair value through profit and loss: These include financial assets held for trading and financial assets designated as at fair value through profit and loss on initial recognition, which are managed and measured on a fair value basis. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value, with net changes in fair value recognised in the consolidated income statement.

- Available-for-sale financial assets: These are financial assets designated specifically as available-for-sale or those that do not fall into any of the three categories above (see Note 18.1.2). These assets are recognised in the consolidated statement of financial position at fair value when this can be determined reliably. Since it is not usually possible to determine reliably the fair value of investments in companies that are not publicly traded, such investments are measured at cost less any identified impairment losses. Changes in fair value, net of the tax effect, are recognised with a debit or credit, as appropriate, to other comprehensive income in the consolidated statement of other comprehensive income (see Note 14.1.6) until these assets are sold, at which time the cumulative balance of this account relating to these investments is recognised in full in the consolidated income statement. If fair value is lower than cost and there is objective evidence that the asset is irreversibly impaired, the difference is recognised directly in the consolidated income statement.

Purchases and sales of financial assets are recognised on the trade date.

The criteria for recognising impairment of financial assets is described in Note 3g.3.

g.2. Cash and cash equivalents

Cash and cash equivalents on the consolidated statement of financial position includes cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are recognised on the consolidated statement of financial position as bank borrowings.

g.3. Impairment of financial assets

The following procedure is used to determine whether an impairment loss should be recognised for financial assets:

- For financial assets of a trading nature classified as loans and receivables, provisions are recognised for the amounts for which there is objective evidence that ENDESA will not be able to recover all the amounts under the original contractual terms. ENDESA companies have a general policy of recognising impairment allowances based on the ageing of the past-due balance, except where specific collectability analysis is advisable, such as for past-due amounts receivable from public entities (see Notes 12 and 19.5)

- In the case of financial assets of a financial nature classified as loans and receivables and held-to-maturity investments, the need to recognise impairment losses is determined by analysis of each specific case, and the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

– Criteria used for available-for-sale financial investments are detailed in Note 3g.1.

ENDESA recognises impairment losses on financial assets through use of an allowance account. The carrying amount is eliminated against the allowance account when the impairment is deemed to be irreversible. Impairment losses for trade receivables are recognised as an expense under depreciation and amortisation, and impairment losses in the consolidated income statement (Note 28). Reversals in future periods of impairment losses are limited to what the amortised cost of the assets would have been had no impairment loss been recognised. If the impairment is irreversible, the carrying amount of the financial asset is eliminated from the allowance account.

At the date of authorisation for issue of the Consolidated Financial Statements all material past-due financial assets are of a trading nature (Note 19.5).

g.4. Financial liabilities except derivatives

Financial liabilities, which include interest-bearing loans and borrowings and trade and other payables, are generally recognised at the amount received, net of transaction costs. In subsequent periods, these liabilities are measured at amortised cost using the effective interest method (see Note 3g.1).

As an exception, in specific cases where liabilities are the underlying of a fair value hedge, the portion of the hedged risk is measured at fair value.

To calculate the fair value of the debt, for the purpose of recognition in the consolidated statement of financial position and for disclosure of fair value included in Note 17.1, debt has been divided into liabilities bearing interest at a fixed rate and liabilities bearing interest at floating rates. Fixed-rate debt is that on which fixed-interest coupons established at the beginning of the transaction are paid explicitly or implicitly over its term. Floating-rate debt is that issued at a variable interest rate, i.e. each coupon is established at the beginning of each period on the basis of the reference interest rate. All these liabilities are measured by discounting the expected future cash flows using the market interest rate curve associated with the payment currency.

ENDESA has confirming transaction arrangements with a number of financial entities. ENDESA applies the criteria set forth in Note 3.g.7 regarding whether it should derecognise the original liabilities with trade payables and recognise a new liability with financial entities. Trade payables whose payment is managed by financial entities are recognised under "Trade payables and other current liabilities" on the consolidated statement of financial position to the degree that only ENDESA has granted the management of payment to financial entities; debts must be paid prior to trade payables.

g.5. Derivatives and hedging transactions

The derivatives held by ENDESA relate mainly to transactions arranged to hedge interest rate risk, foreign currency risk or commodity price risk (electricity, fuel, CO_2 emission rights, CERs and ERUs), the purpose of which is to eliminate or significantly reduce these risks in the underlying hedged transactions.

Derivatives are measured at their fair value at the end of the reporting period. When their fair value is positive, they are carried under financial assets, current or non-current depending on their maturity and the intention of holding the derivative until maturity, if they are financial derivatives, and under trade and other receivables if they are commodity derivatives. When their fair value is negative, they are carried under interest-bearing loans and borrowings, current or non-current depending on their maturity and the intention of holding the derivative until maturity, if they are financial derivatives, and under "Trade payables and other current liabilities," if they are commodity derivatives.

Any gains or losses arising from changes in the fair value of derivatives are recognised in the consolidated income statement, except where the derivative has been designated as a hedging instrument and all the requirements for hedge accounting under IFRS have been met; for example, the hedge must be highly effective. In this case, recognition depends on the type of hedge as follows:

– Fair value hedges: The portion of the underlying for which the risk is being hedged and the hedging instrument are measured at fair value, with gains or losses arising from changes in the fair values of both items recognised in the consolidated income statement, netting the effects under the same heading in the consolidated income statement.

– Cash flow hedges: The effective portion of the gain or loss on the derivative is recognised in other comprehensive income in the consolidated statement of other comprehensive income (see Note 14.1.6). The cumulative gain or loss recognised in this account is transferred to the consolidated income statement as the underlying hedged item affects profit or loss. The effects are netted under the same heading in the consolidated income statement. The ineffective portion of the gain or loss on the hedges is recognised directly in the consolidated income statement.

– Hedges of a net investment in a foreign operation: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, net of the related tax effect, is recognised under translation differences in other comprehensive income in the consolidated statement of other comprehensive income, transferred to the consolidated income statement when the hedged investment is sold.

A hedge is considered to be highly effective when the changes in fair value or in the cash flows of the underlying directly attributable to the hedged risk are offset by the changes in the fair value or cash flows of the hedging instrument with an effectiveness in the range of between 80% and 125%. ENDESA discontinues prospectively the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedging accounting or if it revokes the designation.

ENDESA has entered into commodities forward sale and purchase contracts, mainly for electricity and fuel. In general, these contracts are carried in the consolidated statement of financial position at their market value at the reporting date, with any increases or decreases in value recognised in the consolidated income statement, except when all the following conditions are met:

– The sole purpose of the contract is for own use, i.e. to generate electricity in fuel contracts, and for retail sale in electricity and gas purchase and sale contracts.

– ENDESA's projections support the purpose of these contracts as for own use.

– Past experience of the contracts indicates that contracts have been for own use, except on rare occasions where another use has been necessary as a result of exceptional circumstances or due to logistics management that ENDESA cannot control or predict.

– The contract does not provide for net settlement and there has not been past practice of net settling similar contracts.

ENDESA evaluates whether derivatives are embedded in its contracts and financial instruments to determine if their characteristics and risks are closely related to those of the host contracts provided that the overall contract is not recognised at fair value. If their characteristics and risks are not closely related, the derivatives are separated, with changes in value recognised in the consolidated income statement.

The fair value of the different derivative financial instruments is calculated as follows.

– For derivatives quoted on an organised market, their quoted value at year end.

– In the case of derivatives not quoted on an organised market, ENDESA calculates the fair value of financial derivatives in due consideration of observable market variables, by estimating discounted future cash flows using zero-coupon yield curves for each currency on the last working day of closing, translated to euros at the exchange rate prevailing on the last working day of each closing. All these measurements are made using internal tools. When the gross market value has been obtained, a "Debt Valuation Adjustment (DVA)" is made in respect of credit risk, or a "Credit Valuation Adjustment (CVA)" in respect of counterparty risk. The measurement of CVA/DVA is based on potential future exposure of the instrument (creditor or debtor position) and the risk profile of the counterparties and of ENDESA's own risk profile. In 2016 and 2015, the value of the adjustments made due to the Credit Valuation Adjustment (CVA) counterparty risk and the Debt Valuation Adjustment (DVA) credit risk were not significant.

In accordance with the procedures described above, ENDESA classifies financial instruments in accordance with the levels stipulated in Note 3t (see Note 18.6).

g.6. Financial guarantee contracts

Financial guarantee contracts, which are the guarantee deposits extended to third parties by ENDESA, are initially recognised at fair value. Except where there is evidence to the contrary, fair value is the premium received plus the present value of any cash flows to be received.

Subsequently, financial guarantee contracts are measured as the difference between:

- The amount of the liability determined according to the accounting principles for provisions in Note 3l.

- The amount of the initially recognised asset, less the portion taken to the consolidated income statement on an accruals basis.

g.7. Derecognition of financial assets and financial liabilities

Financial assets are derecognised:

- When the contractual rights to the cash flows from the financial asset have expired or been transferred or ENDESA has assumed a contractual obligation to pay the received cash flows to one or more third parties; and

- ENDESA has transferred substantially all the risks and rewards of the asset, or it has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In 2016 and 2015, ENDESA entered into receivables transfer agreements considered factoring without recourse as it transferred the risks and rewards of ownership of the financial assets transferred (see Notes 12 and 30).

For transactions in which ENDESA retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised in liabilities. Transaction costs are recognised on the consolidated income statement using the effective interest method.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation deriving from the liability has been settled, cancelled or has expired.

g.8. Offsetting financial assets and financial liabilities

A financial asset and a financial liability will be offset when the Company has a legally enforceable right to set off the recognised amounts and has the intention to simultaneously realise the asset and settle the liability on a net basis (see Note 18.5).

These rights will only be legally enforceable in the course of normal Company operations, or in the event of non-compliance, insolvency or bankruptcy of the counterparty.

h) Investments accounted for using the equity method

Investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in the associate is carried on the statement of financial position at ENDESA’s share of the net assets of the associate, adjusted, where applicable, to eliminate intragroup transactions, plus unrealised gains relating to the goodwill paid on acquisition of the company.

If the resulting amount is negative, the investment is carried at zero in the consolidated statement of financial position, unless ENDESA is required to redress the company’s equity, in which case the corresponding provision for liabilities and charges is recognised (see Note 10.1).

Dividends received from these companies are deducted from the value of the investment, while ENDESA's share of the profit or loss of these companies based on its percentage of ownership is recognised in the consolidated income statement under net profit of companies accounted for using the equity method.

After the equity method has been applied, for investments the value of which includes unrealised gains relating to the goodwill paid on acquisition of the company, or those that may otherwise show signs of impairment, the recoverable value of the investment is calculated and, if this is less than the carrying amount, impairment is recognised for the difference between the recoverable value of the associate or the joint venture, and the carrying amount (see Note 3g.3).

In order to assess recoverable value, the higher of the fair value of ENDESA's interest in the investee company or the discount of the future cash flows estimated to be generated by that company is calculated, discounting the debt at the reporting date of the financial statements, applying to that value the percentage of ENDESA's participation in the company and discounting the costs necessary for its sale.

For the investment in ENEL Green Power España, S.L.U. (EGPE) held until full control was taken (see Note 5), an impairment test similar based on hypotheses similar to those described in Note 3e.2 was performed, as a result of which, at 30 June 2016, impairment of this investment was recognised for the amount of Euros 72 million (see Notes 5 and 10.1).

If, as a result of legal or implicit obligations, when the value of the investee has been reduced any additional losses are incurred, they will be booked by recognition of a liability.

Appendix II to these Consolidated Financial Statements lists ENDESA's associates and joint ventures.

i) Inventories

In general, inventories are measured at the lower of weighted average cost and net realisable value.

i.1. Nuclear fuel

The cost for acquiring nuclear fuel includes the borrowing costs on the financing while in process. Finance costs of Euros 3 million in 2016 and Euros 3 million in 2015 were capitalised in this respect (see Note 29). Nuclear fuel in process is transferred to operating expenses when introduced in the reactor and recognised in profit and loss based on the power capacity consumed in the period.

i.2. CO2 emission rights (CO_2), Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs).

ENDESA's companies that emit carbon dioxide emissions (CO_2) in their electricity generation activity must deliver carbon dioxide (CO_2) emission rights (allowances) (European Union Allowances (EUAs), Certified Emission Reductions (CERs) or Emission Reduction Units (ERUs)) in the first months of the following year, equal to their emissions in the preceding year.

Therefore, the criteria for recognising CO_2 emission rights, Certified Emission Reductions (CERs) and Emission Reductions Unit (ERUs) will be to recognise them as inventories, as follows:

- CO_2 emissions rights held as hedges on emissions are valued at the average weighted acquisition price, or the net realisable value, if the latter is lower.

- CO_2 emissions rights held for trading represent a trading portfolio, and are recognised at their fair value less cost to sell, with changes to the consolidated statement of other comprehensive income.

j) Non-current assets held for sale and discontinued operations

ENDESA classifies as non-current assets held for sale property, plant and equipment, intangible assets, financial assets, investments accounted for using the equity method and disposal groups (groups of assets that will be sold together with the liabilities directly associated with those assets) for which an active programme to locate a buyer has been initiated at the reporting date, that are available for immediate sale, and the sale is highly likely to be completed within one year from that date.

These assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell and cease to be depreciated when classified as non-current assets held for sale.

ENDESA measures non-current assets held for sale that cease to be classified as held for sale or cease to be included in a disposal group at the lower of the asset's carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale, and its recoverable amount at the date the asset is reclassified to non-current assets.

The non-current assets held for sale and the components of the disposal groups classified as held for sale are disclosed in the accompanying consolidated statement of financial position as follows: assets in a single line item under non-current assets held for sale and discontinued operations and the liabilities also in a single line under liabilities directly associated with non-current assets classified as held for sale and discontinued operations.

A discontinued operation is a component that has been sold or otherwise disposed of, or has been classified as held for sale and

- Represents a line of business or a geographic area that is significant and may be considered as separate from the rest.

- Forms part of an individual coordinated plan to sell or otherwise dispose of a line of business or a geographic area in the operation that is significant and may be considered as separate from the rest.

- Is a dependent entity acquired exclusively for the purpose of reselling it.

The profit or loss after tax of discontinued operations is presented separately in the consolidated income statement under profit after tax for the year from discontinued operations, including the unrealised gain or loss after tax generated by the divestment operation when this has materialised.

k) Deferred income

ENDESA receives legally established compensation for the amounts paid for the construction or acquisition of certain facilities or, in some cases, is assigned the facilities directly in accordance with prevailing legislation. This heading basically includes:

- Grants related to assets: They are recognised when reasonable certainty exists that their associated conditions will be met. These amounts are recognised under deferred income in the consolidated statement of financial position and taken to the consolidated income statement under other operating income over the useful lives of the assets, thereby offsetting the related depreciation charge.

- Transferred facilities: Assets and deferred income are recognised at the fair value of the asset on the date the assets are transferred and taken to profit and loss under other operating income in the consolidated income statement over the useful life of the asset, thereby offsetting the related depreciation charge.

l) Provisions

Obligations existing at the consolidated statement of financial position date that arise as a result of past events and could have a negative impact on ENDESA’s equity, materialisation of which is considered probable, and the amount and settlement date of which are uncertain, are recognised as provisions in the consolidated statement of financial position at the present value of the most probable amount ENDESA will need to disburse to settle the liability.

ENDESA also recognises provisions for liabilities arising from ongoing lawsuits and termination benefits, deposits and similar guarantees and to hedge risks.

Provisions are made based on the best information available at the date of preparation of the Consolidated Financial Statements on the most likely outcome of the event for which provision is required and are re-estimated at the end of each reporting period.

Provisions for pensions and similar obligations and for restructuring plans included in the consolidated statement of financial position are the result of collective or individual agreements with ENDESA’s employees, whereby the Company undertakes to supplement the public social security system benefits in the event of retirement, permanent disability, death, departure or termination of employment by agreement between the parties.

I.1. Provisions for pensions and similar obligations

Most ENDESA companies have pension obligations with their employees, which vary depending on the company. These obligations, including both defined benefits and defined contributions, are basically arranged through pension plans or insurance policies, except as regards certain benefits in kind, mainly electricity supply obligations, which due to their nature have not been externalised and are covered by in-house provisions.

For defined benefit plans, the companies recognise the expenditure relating to these obligations on an accruals basis over the working life of the employees by performing actuarial studies at the reporting date, calculated using the projected unit credit method. Defined benefit plan obligations represent the present value of the accrued benefits after deducting the fair value of the qualifying plan assets. The actuarial losses and gains arising on the measurement of plan liabilities and assets are recognised directly, net of the related tax effect, in other comprehensive income in the consolidated statement of other comprehensive income (see Note 14.1.7).

For each of the plans, any positive difference between the actuarial liability for past services and the plan assets is recognised as provisions for pensions and similar obligations under non-current provisions on the liability side of the consolidated statement of financial position, and any negative difference is recognised as non-current financial assets under financial assets – loans and receivables under non-current assets in the consolidated statement of financial position, provided that this negative difference is recoverable by ENDESA, usually through a reduction in future contributions taking into consideration the limits set by paragraph 57 (b) of IAS 19 Employee Benefits and IFRIC 14 IAS 19The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The effect of application of this limit is recognised under other comprehensive income in the consolidated statement of other comprehensive income (see Notes 14.1.7 and 16.1).

Contributions to defined contribution plans are recognised as an expense in the consolidated income statement as the employees provide their services.

The post-employment plans that have been fully insured and for which ENDESA has therefore transferred all the risk are considered to be defined contribution plans. Consequently, as in the case of defined contribution plans, no actuarial liabilities or plan assets are considered.

I.2. Provisions for workforce restructuring costs

ENDESA recognises termination or suspension benefits when there is an individual or group agreement with the employees or a genuine expectation that such an agreement will be reached that will enable the employees, unilaterally or by mutual agreement with the company, to cease working for ENDESA or temporarily suspend the employment contract in exchange for a termination benefit. If a mutual agreement is required, a provision is only recorded in situations in which ENDESA has decided to give its consent to the termination of employment, and consent has been notified to the employee either individually or collectively to employee representatives. In all cases in which these provisions are recognised, the employees expect that these early retirements will proceed, and that there will be official notification by the Company to the employee or to the employee's representatives.

ENDESA has restructuring plans in progress which arose as part of the corresponding workforce reduction plans approved by the government, or in agreements drawn up with employee representatives. The plans guarantee payment of an indemnity or maintenance of regular payments during the period of early retirement or suspension of the employment contract.

ENDESA recognises the full amount of the expenditure relating to these plans when the obligation is accrued, understood as the time at which the company is unable to prevent the disbursement, depending on the commitments undertaking with the employee or the employee's representatives. These sums are determined, where appropriate, from actuarial surveys conducted to calculate the actuarial obligation at year-end. The actuarial gains and losses disclosed each year are recognised in the consolidated income statement for that year.

I.3. Provision to cover the cost of carbon dioxide emission allowances (CO_2).

ENDESA's European companies that emit CO_2 in their electricity generation activity must deliver CO_2 emission rights (allowances), Certified Emission Reductions (CERs) or Emission Reduction Units (ERUs) equal to their emissions during the year in the first few months of the preceding year.

The obligation to deliver emission allowances for the CO_2 emitted during the year is recognised as a current provision under other current provisions in the consolidated statement of financial position (see Note 23). The related cost is recognised under other variable procurements and services in the consolidated income statement. This obligation is recognised at the same amount as the CO_2 emission allowances, Certified Emission Reductions (CERs), or Emission Reduction Units (ERUs) to be delivered to cover this obligation in intangible assets in the consolidated statement of financial position (see Note 3i.2).

If at the reporting date of the consolidated statement of financial position ENDESA does not hold all the CO_2 emission allowances, CERs, or ERUs required to cover its emissions, the cost and the corresponding provision are recognised on the basis of a best estimate of the price that ENDESA will have to pay to acquire them. When a more appropriate estimate does not exist, ENDESA estimates the acquisition price for the allowances not held by it as the market price at the reporting date.

I.4. Provisions for decommissioning costs

ENDESA recognises a provision for the expected cost to dismantle some of its plants and certain electricity distribution facilities (see Notes 3a, 3b and 3d). Provision adjustments are recognised with a charge to financial expenses in the consolidated income statement (see Note 29). The interest rates applied during the corresponding adjustments ranged from 0.0% to 1.2% during 2016, depending on the remaining useful life of the associated asset (between 0.2% and 1.5% in 2015).

As of 31 December 2016 and 2015, no provision has been made for onerous contracts.

I.5. Onerous contracts

In the case of contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it (onerous contracts), ENDESA recognises a provision for the present value of the difference between the costs and foreseen benefits of the contract.

m) Translation of foreign currency balances

Transactions in currencies other than the functional currency of each company are recognised in the functional currency by applying the exchange rates prevailing at the transaction date. During the year, differences arising between the balances translated at the exchange rate at the transaction date and those translated at the exchange rate at the date of collection or payment are recorded as financial income or financial expenses in the consolidated income statement (see Note 29).

Balances receivable or payable at year-end denominated in currencies other than the functional currencies in which the financial statements of the consolidated companies are denominated are translated to euros at year-end exchange rates. The resulting valuation differences are recognised as financial profit or loss in the consolidated income statement (see Note 29).

n) Current/non-current classification

In the accompanying consolidated statement of financial position, balances due to be settled within 12 months are classified as current and those due to be settled in a period of more than 12 months are classified as non-current.

In the case of those obligations that mature at short term but with respect to which the expectation and power, at ENDESA's discretion, exists of long-term refinancing through credit facilities available immediately on an unconditional basis, in accordance with the existing financing conditions, and whose claimability exceeds 12 months from the closing date of the Consolidated Financial Statements, are classified as non-current liabilities. At 31 December 2016 and 2015, these balances amounted to Euros 17 million and Euros 525 million, respectively (see Note 17).

o) Income tax

In 2016, all the companies with respect to which ENEL, S.p.A. (the Italian company that heads the ENEL Group) holds an interest of at least 75% or 70% (in the case of listed investees or subsidiaries), and which meet requirements provided for in Spanish legislation on taxation of the consolidated profits of corporate groups, have been integrated into a tax group, the head of which is ENEL, S.p.A. and its representative in Spain is ENEL Iberoamérica, S.L.U.

The number of companies forming the Consolidated Tax Group at 31 December 2016 is 26 (32 companies at 31 December 2015), and which are detailed below: ENEL Iberoamérica, S.L.U., ENDESA, S.A., Aragonesa de Actividades Energéticas, S.A.U., Distribuidora de Energía Eléctrica del Bages, S.A., Distribuidora Eléctrica del Puerto de la Cruz, S.A.U., Empresa Carbonífera del Sur, S.A.U., ENDESA Capital, S.A.U., ENDESA Distribución Eléctrica, S.L.U., ENDESA Energía, S.A.U., ENDESA Energía XXI, S.L.U., ENDESA Financiación Filiales, S.A.U., ENDESA Generación, S.A.U., ENDESA Generación II, S.A.U., ENDESA Generación Nuclear, S.A.U., ENDESA Ingeniería, S.L.U., ENDESA Operaciones y Servicios Comerciales, S.L.U., ENDESA Red, S.A.U., ENDESA Servicios, S.L.U., ENEL Ingegneria e Ricerca, S.p.A. (Branch in Spain), ENEL Latinoamérica, S.A.U., Energías de Aragón I, S.L.U., Gas y Electricidad Generación, S.A.U., Guadarranque Solar 4, S.L.U., Hidroeléctrica de Catalunya, S.L.U., Minas Gargallo, S.L. and Unión Eléctrica de Canarias Generación, S.A.U.

ENDESA's other subsidiaries file individual tax returns in accordance with the tax legislation in force in each country.

In 2016, ENDESA acquired stakes in the parent companies of two consolidated tax groups (see Note 5): ENEL Green Power España, S.L.U (EGPE) and Eléctrica del Ebro, S.A. On 1 January 2017, the companies comprising these two groups that comply with the requirements of Spanish tax regulations in relation to tax payments on consolidated group profits, have been included in the Consolidated Tax Group, to which ENDESA belongs.

The income tax expense for the year is calculated as the sum of the current tax of the different companies resulting from applying the tax rate to the taxable income (tax loss) for the year, after taking into account any available tax deductions, plus the change in deferred tax assets and liabilities, and tax credits for loss carryforwards and deductions. The differences between the carrying amount of assets and liabilities and their tax base give rise to deferred tax assets or liabilities, which are measured at the tax rates that are expected to apply to the years when the assets are realised and the liabilities settled.

Income tax and changes in deferred tax assets and liabilities not arising from business combinations are recognised in the consolidated income statement or in equity accounts in the consolidated statement of financial position, depending on where the profits or losses giving rise to them have been recognised.

Deferred tax assets and tax credits are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which the related temporary differences can be recovered or the related tax assets can be utilised.

Deferred tax liabilities are recognised for all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill or in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled entities, when ENDESA can control the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future. Tax credits arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised, in which case they are not recognised until they have effectively been realised.

The deferred tax assets and liabilities recognised are reviewed at the end of each reporting period in order to ascertain whether they still exist, and the appropriate adjustments are made.

On 28 November 2014, Corporate Income Tax Law 27/2014, of 27 November, was published in the Spanish Official State Gazette (BOE), which establishes a provisional tax rate of 28% for 2015 and a general tax rate of 25% from 2016. The impact of this tax rate reduction on deferred tax assets and liabilities in 2015 amounted to Euros 11 million, negative, recognised in the consolidated income statement for 2015, and Euros 4 million, recognised in the statement of other comprehensive income (see Note 31).

Under the prevailing legislation, taxes cannot be considered definitively settled until the returns presented have been inspected by the tax authorities or inspection period of four years has elapsed. At 31 December 2016, the Consolidated Tax Group has its books open to inspection for 2006, 2011 and onwards for corporate income tax and for 2012 and onwards in respect of all other applicable taxes.

In 2016, the tax authorities commenced a review of corporate income tax, VAT and withholdings, which could give rise to contingent liabilities. At 31 December 2016, information was being collected and analysed by the tax authorities, accordingly, it is not possible to estimate the possible economic consequences of the procedure.

The taxes and years open to review are as follows:

	Years
Income tax expense	2011 to 2014
Value added tax (VAT)	March/2012 to December/2014
Withholdings / Prepayments Salary/Professional income	2011 to 2014
Withholdings / Prepayments Income from movable capital	March/2012 to December/2014
Withholdings Taxation of Non-Residents	March/2012 to December/2014
Withholdings / Prepayments Property Leases	March/2012 to December/2014

(*) Corresponds to the years and taxes that the Consolidated Tax Group has open to inspection. The information relating to ENEL Green Power España, S.L.U. (EGPE), which was taken over on 27 July 2016, are included in Note 16.3.

p) Recognition of income and expense

Income and expense are recognised on an accruals basis, on the following criteria:

- Income from electricity and gas sales is recognised when the commodities are supplied to the customer, depending on the amounts supplied during the period, even if not yet billed. Revenue therefore includes an estimate of the energy supplied before customers' meters have been read (see Note 2.2).

- In relation to revenue from distribution business, the Spanish electricity regulatory framework establishes remuneration annually via a ministerial order. The Spanish Markets and Competition Commission (CNMC) makes arrangements for payment of the acknowledged remuneration to electricity distribution companies.

- Electricity revenue on the wholesale market is recognised as income in accordance with the best estimate of electricity delivered and ancillary services supplied.

- The generation activity from renewable sources, cogeneration and waste that has a specific remuneration regime registers additional income at the average peninsular price, equivalent to that specific remuneration.

- The remuneration of generation activity in non-mainland systems is regulated. To attain the level of remuneration established, compensations to reach the regulated remuneration are recognised as income, in addition to the valuation of energy sold at the average mainland price.

Revenue is calculated in accordance with the substance of the operation, and is recognised when all of the following conditions are met:

- All the risks and rewards of ownership of the assets have been transferred to the customer, irrespective of whether or not the legal ownership has been transferred.

- The assets are not managed, and effective control is not maintained.

- It is likely that economic benefits will be received on the transaction, and that these benefits will bring about an increase in equity that is not related to contributions from equity holders.

- The expected benefits and costs incurred can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

In contracts with several components, the criterion for recognition will be applied to each separate identifiable component in order to reflect the commercial substance of the transaction. The criterion for recognition, however, will apply to two or more transactions, on a joint basis, when they are related, in such a way that the commercial impact cannot be understood without reference to the full set of transactions.

Revenue from services rendered is only recognised if it can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date. When the outcome of a transaction involving the provision of services cannot be reliably estimated, revenue is recognised for the amount in respect of which recognised expenses are considered to be recoverable.

ENDESA excludes from income gross inflows of economic benefits received when acting as an agent or commission agent on behalf of third parties, and only recognises income from its own activity.

When goods or services are exchanged or swapped for goods or services which are of a similar nature, the exchange is not regarded as a transaction that generates income.

ENDESA recognises non-financial asset purchase or sale contracts settled net in cash or another financial instrument at their net amount. Contracts entered into and maintained for the purpose of receiving or delivering these non-financial assets are recognised on the basis of the contractual terms of the purchase, sale or usage requirements expected by the entity.

Interest income is recognised by reference to the effective interest rate applicable to the outstanding principal over the related repayment period.

Expenses are recognised on an accruals basis. Disbursements that will not generate future economic benefits or which do not qualify for recognition as an asset are recognised immediately.

q) Earnings (loss) per share

Basic net earnings per share are calculated by dividing net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent Company held by ENDESA.

The basic earnings per share of continuing and discontinued operations are calculated by dividing profit after tax of continuing and discontinued operations, respectively, minus the portion corresponding to non-controlling interests, by the weighted average number of ordinary shares of the Parent Company outstanding during the year, excluding the average number of shares of the Parent Company held by ENDESA.

In 2016 and 2015, ENDESA did not perform any potentially dilutive transactions that could cause diluted earnings per share to differ from basic earnings per share.

r) Dividends

Dividends are recognised when the right to collect them is generated.

Dividends are recognised as a reduction in equity when approved by the competent body, which is usually the board of directors in the case of interim dividends and the shareholders at their general meeting of shareholders in the case of dividends charged against reserves or final dividends (see Note 14.1.9).

s) Statement of cash flows

The statement of cash flows reflects the changes in cash occurring during the year in relation to both continuing and discontinued operations, calculated using the indirect method. The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are investments with a term of less than three months that are highly liquid and subject to an insignificant risk of changes in value (see Note 3g.2).

- Operating activities: The principal revenue-producing activities of ENDESA, as well as other activities that are not investing or financing activities. They include dividends received as well as the collection and payment of interest.

- Investing activities: The acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents. Net flows from investment activities include those corresponding to losing and gaining control over Group companies.

- Financing activities: Activities that result in changes in the amount and composition of equity and financial liabilities. Net cash flows from financing activities include dividends paid.

t) Fair value measurement

Fair value is defined as the price that would be collected for the sale of an asset or that would be paid for the transfer of a liability, in an orderly transaction between market players at the valuation date.

The valuation is calculated on the premise that the transaction is carried out on the main market, i.e. the market with the largest volume or activity of the asset or liability. In the absence of a main market, it is assumed that the transaction is carried out on the most advantageous market, i.e. that which maximises the amount received from selling the asset or that which minimises the amount paid to transfer the liability.

The fair value of the asset or the liability is determined by applying the assumptions that would be made by the market players at the time the price of the asset or liability is set, on the understanding that the market players are acting in their best economic interests. The market players are independent of each other, they are well informed, they can carry out a transaction with the asset or liability, and are motivated to carry out the transaction but are not in any way obliged or forced to do so.

Assets and liabilities measured at fair value may be classified on the following levels (see Note 18.6):

- Level 1: Fair value is calculated from quoted prices in active markets for identical assets or liabilities.

- Level 2: Fair value is calculated from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The methods and assumptions used to determine fair value within Level 2 by class of assets or liabilities take into account the estimate of future cash flows discounted to present value using zero-coupon yield curves for each currency on the last working day of each closing, translated to Euros at the exchange rate prevailing on the last working day of each closing. All these measurements are made using internal tools.

- Level 3: Fair value is calculated from inputs for assets or liabilities that are not based on observable market data.

ENDESA uses valuation tools to measure the fair value of assets and liabilities that are suited to the circumstances and for which sufficient data are available to appraise fair value, making maximum use of major observable variables and minimum use of non-observable variables.

u) Share-based payment plans

Where ENDESA employees participate in a remuneration scheme tied to ENDESA, S.A. share prices, and this company assumes the cost of the scheme, ENDESA recognises the fair value of ENDESA's obligation to employees as an expense under the heading "Personnel expenses" in the consolidated income statement.

4. Industry regulation

However, following the energy reform begun by the government in 2012, on 27 December 2013, Law 24/2013 of 26 December on the electricity sector was published in the Official State Gazette ("BOE"), repealing and replacing the aforementioned Law 54/1997, of 27 November, and establishing a new general operating framework for the electricity sector. Therefore, Law 24/2013 of 26 December establishes a new general framework for the sector, as well as its activities and agents, the most significant of which follows:

- The new law introduces the basic principle of the economic and financial sustainability of the electricity system in such a way that revenues are sufficient to cover all system costs. System costs will be financed by access charges for transmission and distribution networks (to cover remuneration of both activities), charges established for payment of other costs, packages from the General State Budget ("PGE") and any other revenue or financial mechanism established. Also:

- Any increase in costs or reduction in revenues must be accompanied by an equivalent reduction of other costs or a revenue increase. Simultaneously, no charges may decrease as long as there are cost items used to pay debt from previous years.

- From 2014 onwards, temporary imbalances that may arise will be limited to a maximum annual amount of 2% of the estimated system revenue (or 5% in cumulative terms). Any transitory imbalance will be financed by all players taking part of the settlement system, in proportion to their remuneration. If these limits are exceeded, access fees or charges will be reviewed by an equivalent amount. Within these limits, any imbalance will entitle the financing parties to recover those funds in the five following years, at an equivalent market interest rate.

- With regard to the year 2013, a maximum deficit of Euros 3,600 million is recognised, without prejudice to any timing mismatches that may arise. This deficit will generate a recovery entitlement over the fifteen years following, at an equivalent market interest rate. These rights may be transferred, in accordance with the procedure established in regulations.

- The General State Budget for each year will finance 50% of compensation for non-mainland ("TNP") electricity systems for that year.

– Concerning remuneration for activities, the law stipulates that remuneration for transmission, distribution and production in non-mainland systems and production from renewable energy sources, high-efficiency cogeneration and waste will take into account the costs of an efficient and well-managed company. Remuneration parameters will be established in due consideration of the cyclical situation of the economy, demand for electricity and an adequate return on these activities over six-year regulatory periods. The law establishes the remuneration of assets for the first regulatory period (which ends on 31 December 2019) as the average yield on 10Y treasury bills on the secondary market for the three months prior to entry into force of Royal Decree Law 9/2013 of 12 July, plus 200 basis points for transmission, distribution and production in non-mainland systems, plus 300 basis points for production from renewable energy sources, high-efficiency cogeneration and waste.

– The differentiation between ordinary regime and special regime power generation has also been removed, without prejudice to specific considerations for certain technologies.

– The Last Resort Tariff (LRT), which applies to most domestic consumers, will be renamed as Small Consumer Voluntary Price ("PVPC"), and the Last Resort Tariff will be maintained for vulnerable consumers and those that do not meet the requirements to be eligible for the Small Consumer Voluntary Price tariff and temporarily do not have a current contract with a free-market supplier.

Along with this basic law, and in relation to the energy reform process, a number of provisions have been approved since 2012 to reduce the deficit of regulated activities and guarantee the financial stability of the system. These include Royal Decree-Law 9/2013 of 12 July, adopting urgent measures to guarantee the financial stability of the electricity system and modifying, inter alia, the remuneration system for generating facilities using renewable energy, cogeneration and waste, and electricity transmission and distribution activities.

Additionally, Law 15/2012 of 27 December on fiscal measures for energy sustainability, which came into force on 1 January 2013, introduced new taxes (or amendments to existing taxes) affecting generating facilities. The following taxes were introduced:

– General tax on ordinary and special regime generation, equivalent to 7% of total revenues generated.

– Tax on nuclear fuel spent and radioactive waste, and storage at centralised facilities.

– Levy on hydro output, equivalent to 22% of revenues. This levy will be reduced by 90% for plants with installed capacity equal to or less than 50 MW and for pumped-storage hydro plants of over 50 MW. This reduction will also apply to any output or facilities defined by regulations that have to be supported to fulfil general energy policy.

– A "green cent" tax on consumption of electricity generated using natural gas, coal, fuel-oil or diesel.

The provisions of this law stipulate that the taxes collected, along with other sums from the auction of greenhouse gas emission allowances, will be used to finance the costs of the electricity system.

Additionally, in July 2013 the Government launched other regulatory developments that relate to transmission, distribution and generation in non-mainland systems, renewable energies, self-consumption, capacity payments and aspects of sales and supply, some of which, as stipulated below, are still in process.

Remuneration of the electricity distribution activity

Royal Decree 1048/2013 of 27 December was published on 30 December 2013, establishing the methodology for calculating remuneration for power distribution, extending from Royal Decree Law 9/2013 of 12 July and Law 24/2013 of 26 December. These aim to provide a stable predictable methodology to guarantee, under homogeneous criteria nationwide, appropriate return at the lowest possible cost to the system. The chief aspects of this methodology follow:

- Investment in non-amortised assets in service will be remunerated in due consideration of the net value of the assets and a financial remuneration rate based on 10Y treasury bills plus 200 basis points, in addition to the operation and maintenance of the assets.

- There will be remuneration for the costs required to carry out distribution activities, such as meter reading, supply contract process, billing access charges and management of non-payments, customer phone service, charges for occupancy of public areas and structural costs.

- There are incentives and penalties in connection with improvements to supply quality, reducing losses on distribution networks, and a new fraud reduction incentive.

- The extra costs of specific regulations introduced by regional or local authorities will not be borne by the electricity tariff.

- Collection of the payment of remuneration for facilities commissioned in year n will start from 1 January of the year n+2, and a financial cost will be recognised.

- Mechanisms have been established to control investment. For the whole sector, the maximum volume of authorised investment has been limited to a total of 0.13% of Gross Domestic Product (GDP). Distributors will submit to the Ministry of Energy, Tourism and Digital Agenda their yearly and pluri-annual investment plans for approval, and will also require a favourable report from the regional authorities concerned. Limits are also established for deviations from the standard, just recognising part of the extra costs, which must be duly justified and audited. Volumes of investment will also be reduced in the event of non-compliance with the plans established, and the possibility to bring forward the construction of a facility is established, provided it is already envisaged and its cost is not borne by the system.

The format established in the Royal Decree will apply when the first regulatory period commences, and until that time the transitory system established in Royal Decree-Law 9/2013 of 12 July will be applicable.

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

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

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 Euros 2,014 million in remuneration for this activity. ENDESA has also been awarded quality and anti-fraud incentives of Euros 7 million and Euros 2 million, respectively.

The amounts recorded in application of these regulations at 31 December 2016 are described in Note 18.1.1.

Non-mainland Territories electricity systems

Electricity supply activities in non-mainland territories are subject to a specific regulation addressing the particular nature of their geographic locations. This special regulation was developed by Royal Decree 1747/2003 of 19 December 2003 and the Ministerial Orders of 30 March 2006 which implemented this Royal Decree.

The main element of the non-mainland regulatory system was that electricity production was remunerated under the feed-in tariff system, unlike in mainland Spain, in view of the specific features of these systems.

Among the adjustment measures adopted in 2012, the government introduced a series of measures impacting, inter alia, remuneration of the non-mainland electricity distribution activity. Specifically, Royal Decree-Law 13/2012 of 30 March stipulates that a proposal will be made for a review of the remuneration system for non-mainland generation. Subsequently, Royal Decree-Law 20/2012 of 13 July, on measures to guarantee budgetary stability and promote competition, modified certain specific aspects of recognised costs in the ordinary regime for non-mainland electricity systems, stating that any review, as stipulated in Royal Decree-Law 13/2012 of 30 March, would apply as of 1 January 2012.

On 30 October 2013, Law 17/2013 of 29 October was published in the Official State Gazette. Its aim is to provide a better guarantee of supply and increase competition in non-mainland systems, and the main aspects are as follows:

- For reasons of safety or technical and economic efficiency, additional remuneration to the mainland spot market price may be given for new generation facilities in non-mainland electricity systems, even if power output required to cover demand is exceeded.

- The new regime will not be applied to new facilities in island and non-mainland electricity systems (either under the ordinary or CHP/renewable regimes) owned by a company or business group which holds more than 40% of generating power in the system. An exception is made in the case of facilities awarded through capacity tenders for the deployment of renewable energy sources holding administrative authorisation or have been registered in the remuneration pre-assignment register for the CHP/renewable regime. Another exception is made for investment in upgrading and improving efficiency at plants already in operation which do not entail an increase in capacity or where there are no other agents interested in developing facilities.

- The System Operator will be the owner of pumped-storage hydro plants intended to guarantee security of supply, or the integration of renewable sources. In all other cases an award procedure will be carried out. Notwithstanding the above, any company holding a hydroelectric operating concession granted before 1 March 2013, or which had been granted administrative authorisation but had not been granted authorisation to bring the plant on stream, will retain ownership but will be liable for a guarantee amounting to 10% of the total investment and adhere to an execution timetable.

- Regasification plants will be exclusively owned by the Technical System Operator, and the facilities concerned must be transferred within 6 months at market price. If the facility does not have administrative authorisation, the price will be limited to the total costs actually incurred up to 1 March 2013.

- Remuneration associated with fuel costs will be established by a mechanism taking account of the principles of competition, transparency, objectivity and non-discrimination.

- A compatibility ruling by the Department of Energy Policy and Mines will be necessary for the approval of new groups, to ascertain that the facility is compatible with the technical criteria stipulated by the System Operator and economic cost-reduction criteria.

- There is a possibility of reducing remuneration at facilities in island and non-mainland electricity systems in the event of a substantial decrease in their availability, the guarantee of supply or the supply quality indexes attributed to generating facilities. It is also possible that the government will take action in the electricity sector to guarantee supply in situations of risk.

Moreover, within the context of the reform measures for the energy sector approved by the Council of Ministers on 12 July 2013, the government began to process several regulatory developments that relate, among other matters, to generation in non-mainland systems.

On 1 August 2015, the Spanish Official State Gazette published the Royal Decree 738/2015, of 31 July, on Non-Mainland Territories ("TNP") generation. This Royal Decree established a scheme similar to the current scheme, made up of remuneration for fixed costs, which comprises fixed investment and fixed operations and maintenance costs, and for variable costs, including fuel and variable operations and maintenance costs, also taking into account, within the costs of these systems, the taxes arising from Law 15/2012, of 27 December 2012, on fiscal measures for energy sustainability. Certain aspects of the methodology are changed in order to improve the efficiency of the system. The Royal Decree also implements matters already contained in Law 17/2013, of 29 October 2013, to guarantee supply and increase competition in these systems.

The Royal Decree was set to enter into force from 1 September 2015, considering a transitory period as from 1 January 2012 for certain measures. In accordance with Additional Provision Eleven, its full and definitive effectiveness is subordinated to the non-existence of objections by the European Commission with respect to its compatibility with the EU regulations in question.

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

The amounts recorded in application of these regulations at 31 December 2016 are described in Notes 18.1.1. and 22.

Electricity generation using Spanish coal

Royal Decree 134/2010 of 12 February 2010, amended by Royal Decree 1221/2010, of 1 October 2010, establishes a mechanism to guarantee the output from certain power plants that use Spanish coal, for reasons of supply security, setting a regulated price for its remuneration. This Royal Decree was first applied at the end of February 2011, and application terminated on 31 December 2014.

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

Under this proposal, domestic coal-fired facilities that invest in environmental improvements to reduce nitrogen oxide emissions (in compliance with Industrial Emissions Directive 2010/75/EU, of 24 November 2010) are entitled to receive Euros 90,000/MW. To be eligible for this payment, the companies owning these facilities must meet a series of requirements, including the obligation to purchase domestic coal equivalent to a minimum of 6,000,000 therms PCS/MW a year through to 31 December 2018, or be included in the Transitional National Plan.

On 30 September 2015, the CNMC issued its report on the above-mentioned proposal, in which it questions, from the point of view of efficient economic regulation and competition, various aspects of the future regulation, and suggests referring the proposal to Brussels before its approval, since it contains elements that could be considered as State aid.

According with this, the Ministry of Energy, Tourism and Digital Agency, reported that it would continue to work with the European Commission in studying the possibility of some type of aid mechanism during these years to guarantee the burning of coal at power stations, so as not to put the security of supply at risk, whilst also being compatible with EU legislation.

In October 2016, and after reaching an agreement with the European Commission, the Government authorized the call for aid to the national coal mines, which includes additional aid for the period 2016-2018, for both underground and open pit mining. The aid is determined on the basis of the international price of coal, in order to reflect the reduction of that international price and the consequent loss of competitiveness of the national coal. For 2016 the amount of aid is set at Euros 10 / tonne.

Production from renewable energy sources, cogeneration, and waste.

Royal Decree 413/2014 of 6 June approved a new remuneration framework for facilities producing electricity from renewable energy sources, combined heat and power, and waste, following Royal Decree Law 9/2013, of 12 July, adopting urgent measures to ensure the financial stability of the electricity system, and Electricity Industry Law 24/2013, of 26 December.

The new methodology replaces the previous regulated tariff structure with a new framework that applies the concept of reasonable return, guaranteeing a profit before tax based on the average yield of 10-year treasury bills plus 300 basis points. Under this new framework, in addition to remuneration for the sale of electricity valued at market price, facilities will be eligible to receive a specific remuneration consisting of a term per unit of installed capacity which covers, where appropriate, the investment costs for a standard facility that cannot be recovered through electricity sales on the market, which is known as return on investment, and an operating term which covers, where applicable, the difference between the operating costs and the income from the investment on the production market for this standard facility, which is known as return on operations.

The new remuneration system will be applied equally to facilities already in operation and new installations. For new facilities, adherence to the specific remuneration regime will be established through a series of competitive procedures.

In non-mainland territories, an incentive is established for investment when generation costs are reduced.

The regulation also establishes the terms under which remuneration parameters should be reviewed. These may be only be modified, as applicable, every six years, every three years or every year. The standard value of the initial investment and the regulatory useful life of the asset will remain unchanged once they have been recognised for each standard facility.

Ministerial Order IET/1045/2014, of 16 June, approving the remuneration parameters for standard facilities applicable to certain facilities producing electricity from renewable energy sources, combined heat and power, and waste, and establishing specific values for the standard costs for each of the standard facilities defined, was published in the Official State Gazette on 20 June 2014.

Lastly, Ministerial Order IET/1459/2014, of 1 August, approving the remuneration parameters and establishing a mechanism for allocating remuneration for new wind and photovoltaic facilities in electrical systems of non-mainland electricity systems, was published in the Spanish Official State Gazette on 5 August 2014.

Currently, a draft Royal Decree and a draft Ministerial Order are being prepared to perform one or various auctions, up to a maximum of 3,000 MW for new mainland renewable energy facilities (excluding repowering).

Additionally, for Non-Mainland Territories, the Ministry of Energy, Tourism and Digital Agency has announced its intention to perform an auction in 2017.

The amounts recorded in application of these regulations at 31 December 2016 are described in Note 18.1.1.

Self-consumption

On 10 October 2015, the Official State Gazette published Royal Decree 900/2015, of 9 October, which regulates the administrative, technical and economic requirements for supplying and generating electricity for self-consumption, establishing a regulatory framework which guarantees the economic sustainability of the system and the adequate distribution of system costs.

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

- Consumers on islands, and

- Small consumers with a contracted capacity of no more than 10 kW.

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

Social Bonus

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 marketing 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. This percentage was set at 41.10% for Endesa in 2016 by Ministerial Order IET/1451/2016, of 8 September.

Despite the foregoing, in a ruling on 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 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 on 14 December 2016, and on 2 February 2017, an appeal was submitted against this to the Constitutional Court (see Note 16.3).

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.

By virtue of this Royal Decree Law, the Social Bonus will cover the difference between the Small Consumer Voluntary Price and a base value, which may vary depending on the categories of vulnerable consumers established, to be known as the last-resort tariff, which will be applied by the supplier of reference concerned to the bills of consumers on the scheme.

The Social Bonus will be funded by group parents of companies with electricity energy supply activities, or by companies acting directly. The CNMC will calculate the funding percentage annually, and it will be proportional to the number of customers. The Royal Decree Law establishes transitory funding percentages, and 37.67% was established for ENDESA.

Also, with the upper limit established by an order issued by the Ministry of Energy, Tourism and Digital Agenda, following an Agreement by the Government's Delegated Committee for Economic Affairs, these companies or groups of companies would undertake the amount they have to pay to co-fund, together with public authorities, the cost of supply to consumers deemed to be severely vulnerable in accordance with the criteria established by Law. This will make them essential supplies, and supplies cannot be suspended for consumers deemed to be severely vulnerable using last-resort tariffs who, for the purposes of these supplies, are covered by social services since their income makes them vulnerable to social exclusion, and the measure is confined to individuals in their habitual residence. The above will be accredited in a document issued by social services.

Regulations will also establish the categories of vulnerable consumers in respect of which, 4 months after the first payment request (as opposed to 2 months at present), to no avail, the supply may be curtailed.

The Royal Decree Law stipulates that the measure will be implemented in a Royal Decree within a maximum timeframe of three months of convalidation, 31 January 2017.

Deficit from regulated activities

Royal Decree-Laws 6/2009 of 30 April 2009, and 6/2010 of 9 April 2010, stipulated that as of 2013 any grid access charges established should be sufficient to cover all electricity system costs, with no ex ante deficit. For the 2009-2012 period, Royal Decree Law 6/2009 of 30 April 2009 caps the deficit for each year and the access charges established for those years must be sufficient to prevent those limits being exceeded. These limits were changed under Royal Decree-Law 14/2010 of 23 December and by Royal Decree-Law 29/2012 of 28 December.

The aforementioned Royal Decree-Laws in turn regulated the securitisation of the collection rights accumulated by the electricity companies on financing that deficit, including compensation for as yet unrecovered stranded costs in non-mainland generation for the 2001-2008 period.

Moreover, this legislation requires that, in the event of any mismatch in the timing of settlements of regulated activities, a certain percentage should be financed by the companies specified in the above-mentioned legislation (44.16% corresponds to ENDESA), and that these companies are entitled to recover the amounts paid in settlements of regulated activities for the year in which they are recognised.

Royal Decree 437/2010, of 9 April, regulated the securitisation of the electricity system deficit generated until 31 December 2012, and Royal Decree 1054/2014, of 12 December, regulated the deficit generated in 2013. With the transfers made under these Royal Decrees, the last of which was agreed on 15 December 2014, all of the rights recognised for the tariff deficit up to 2013 have been transferred.

For financial years commencing 2014, Law 24/2013 of 26 December on the electricity sector establishes that any timing mismatches arising will be financed by all parties to the settlements system in proportion to the remuneration allocated to them, limited to a maximum annual amount of 2% of the estimated system revenue (or 5% in cumulative terms). If these limits are exceeded, access fees or charges will be reviewed by an equivalent amount. Within these limits, the mismatches will entitle the financing parties to recover those funds in the following five years, at an equivalent market interest rate.

Based on the definitive 2015 settlement approved by the CNMV in November 2016, 2015 ended with a Euros 469 million surplus.

The amounts recorded in application of these regulations at 31 December 2016 are described in Note 18.1.1.

Royal Decree 216/2014, of 28 March, establishing the methodology for calculating the Small Consumer Voluntary Price (SCVP) electricity tariff and the contracting system

On 29 March 2014, this Royal Decree was published, which establishes the methodology for calculating the Small Consumer Voluntary Price (SCVP) as of 1 April 2014. Key aspects of this Royal Decree are as follows:

- The cost of energy to be used in calculating the SCVP will be the energy price per hour in the daily and intraday market in the invoice period, plus adjustment services, capacity payments and System Operator and Market Operator financing payments.

- For consumers with remote meters integrated in the system, the hourly price will be applied to the actual hourly consumption; otherwise, the profile published by the System Operator will be used.

- This new mechanism will be applied as from 1 April 2014. Prior to 1 July 2014, the suppliers of reference must adapt their IT systems in order to invoice consumers under the new scheme. In the meantime, the cost of energy to be applied in the SCVP will be the temporary price established for the first quarter of 2014. Subsequently, the cost will be adjusted in invoices for consumption as of 1 April 2014, in the first billing period after suppliers' IT systems are duly adapted for the new SCVP.

- In addition, electricity consumed in the first quarter of 2014 must be adjusted in the first invoices issued following adaptation of the IT systems, as per Royal Decree Law 17/2013, of 27 December, taking into account the spread between the market price and the cost of purchasing energy included in the Small Consumer Voluntary Price (SCVP) in that period.

- The Royal Decree also establishes that, within two months of its publication, the Spanish Markets and Competition Commission will propose to the Secretary of State for Energy proposed procedures for verifying, validating and closing data taken from metering equipment connected to the remote system for the purposes of hourly measurements. These proposed procedures will include a maximum period for completing the remote measurement of all remote meters installed.

- As an alternative, the suppliers of reference will be required to extend an offer to customers entitled to the SCVP in the form of a fixed price for a one-year period, comprising the revisable access tariffs and a fixed value for one year (in €/kW) for the remaining items. The offer will remain in force for one month, and will be consistent throughout Spain. Each supplier of reference may have only one offer in force during the period.

- The Royal Decree also establishes that the subsidised electricity tariff will be equal to a 25% discount on the SCVP.

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

On 25 November 2016, the Spanish 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, the Ministerial Order ETU/1948/2016 was published, which came into force on 1 January 2017, and establishes the trading margin on the Small Consumer Voluntary Price.

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.

Ministerial Order IET/359/2016 of 17 March, establishes ENDESA's contribution to the Energy Efficiency National Fund at Euros 29.9 million for 2016.

The Ministry of Energy, Tourism and Digital Agenda began to process a draft Ministerial Order establishing the contribution obligations to the National Energy Efficiency Fund for 2017, raising the proposed amount for 2017 obligations for ENDESA to Euros 28.9 million.

2016 electricity tariff

Ministerial Order IET/2735/2015, of 17 December, was published in the Spanish Official State Gazette on 18 December 2015, establishing access charges for 2016.

Pursuant to this Order, tariffs remained unchanged, except for high-voltage access tariff 6.1B (30<kV≤36). However, the unit price paid by customers to finance capacity payments were reduced by 21.5% from those existing on 31 December 2015.

2017 electricity tariff

Ministerial Order ETU/1976/2016, of 23 December, was published in the Spanish Official State Gazette on 29 December 2016, establishing access charges for 2017.

Access tariffs remained unchanged in the Order.

Gas system

On 22 May, 2015, Law 8/2015, dated 21 May, on the hydrocarbons sector was published, which amends Law 34/1998 of 7 October, and establishes certain tax and non-tax measures in respect of the exploration, research and use of hydrocarbons, and modifies the previous Hydrocarbons Law to bring it more into line with the current situation, so as to increase competition and transparency in the hydrocarbons sector, reduce fraud, ensure greater consumer protection, reduce costs for the consumer and adapt the rules on infringements and penalties.

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

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

Natural gas tariff for 2016

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

Natural gas tariff for 2017

Ministerial Order ETU/1977/2016, of 23 December, generally maintained the access tariffs with respect to 2016, having updated the Last Resort Tariffs (LRT) with an average 9% reduction, resulting from lower raw material costs.

5. Business Combinations

2016

5.1. Acquisition of ENEL Green Power España, S.L.U. (EPGE).

On 27 July 2016 ENDESA Generación S.A.U., a company wholly owned by ENDESA S.A. (ENDESA), purchased a stake from ENEL Green Power International B.V. of 60% of ENEL Green Power España, S.L.U. (EGPE), a company in which it had previously held a 40% stake (see Notes 2.3.1, 2.4 and 10.1).

ENEL Green Power España, S.L.U. (EGPE) engages, directly or through companies it controls, in the production of electricity using renewable energy sources in Spain. It currently has approximately 91 wind power, hydroelectric and solar plants, with total installed capacity of 1,675 MW at 31 December 2016 and output of 3,704 GWh in 2016.

When the purchase materialised, it enabled ENDESA to take control of ENEL Green Power España, S.L.U. (EGPE), boosting the significant influence it already had through its 40% holding. The takeover did not lead to any changes in the corporate name of ENEL Green Power España, S.L.U. (EGPE).

Through this acquisition ENDESA strengthens its presence in the Iberian generation market by incorporating an attractive portfolio of electricity generation assets of renewable origin into its production mix.

Appendix IV to these Consolidated Financial Statements lists ENDESA's subsidiaries that form part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

ENDESA has recognised this transaction by the application of the acquisition method, as it considers it to have financial substance and that it constitutes a business according to the definition provided by IFRS 3 “Business Combinations” (See Note 2.7).

The purchase price for the 60% holding was Euros 1,207 million, and it was paid in full on 27 July 2016. To make the payment, ENDESA, S.A. issued Euro Commercial Paper (ECP) through International ENDESA, B.V., the renewals of which are backed by irrevocable lines of bank credit in the amount of Euros 1,200 million, and it completed the amount with an additional drawdown on these lines (see Note 17.2). ENDESA, S.A. used the habitual intercompany operation to finance ENDESA Generación, S.A.U.

The net cash outflow from the acquisition of 60% of ENEL Green Power España, S.L.U. (EGPE) was as follows:

Million Euros	
Cash and cash equivalents of the acquiree	(31)
Net amount paid in cash (*)	1,209
TOTAL	**1,178**

(*) Includes purchase costs booked under "Other fixed operating expenses" in the consolidated income statement in the amount of Euros 2 million.

In order to add ENEL Green Power España, S.L.U. (EGPE) to ENDESA's Consolidated Financial Statements, the purchase price was provisionally booked, on the basis of the fair value of the assets acquired and the liabilities assumed (Net Assets Acquired) from ENEL Green Power España, S.L.U. (EGPE) at the purchase date under the following headings of the Consolidated Financial Statements:

Million Euros	Notes	Fair value
Non-current assets		**2,328**
Property, plant and equipment	6	1,248
Intangible assets	8	757
Investments accounted for using the equity method	10	34
Non-current financial assets	18.1	252
Deferred tax assets	21	37
Current assets		**143**
Inventories		29
Trade and other receivables		70
Current financial assets		13
Cash and cash equivalents		31
Non-current assets held for sale and discontinued operations		-
TOTAL ASSETS		**2,471**
NON-CONTROLLING INTERESTS		**148**
Non-current liabilities		**445**
Deferred income	15	9
Non-current provisions	16	55
Non-current interest-bearing loans and borrowings	17.1	141
Other non-current liabilities		9
Deferred tax liabilities	21	231
Current liabilities		**164**
Current interest-bearing loans and borrowings		86
Trade and other payables		78
Liabilities associated with non-current assets classified as held for sale and discontinued operations		-
TOTAL LIABILITIES		**609**
Fair value of net assets acquired (*)		**1,714**

(*) The main revalued assets belong to the category of Intangible Assets (see Note 8).

The fair value of non-financial assets acquired was determined based on their increased and enhanced use, which is no different to their current use.

The measurement of the fair value of the assets acquired and the liabilities assumed from ENEL Green Power España, S.L.U. (EGPE), was undertaken, mainly, on the basis of "income perspective" through which the asset's fair value is determined by its capacity to generate revenue over the rest of its useful life. The fair value is measured using techniques to update the expected future cash flows to present value, determining a business value for each project which is in the phase of operation or construction at the date that control is assumed.

The assumptions considered in the income perspective measurement method used for the assets acquired and the liabilities assumed from ENEL Green Power España, S.L.U. (EGPE) determine their classification in Level 3 of the fair value hierarchy set forth in Note 3t.

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), amounting to Euros 805 million (see Note 10.1) generated provisional goodwill in the amount of Euros 298 million, which is not tax deductible (see Note 9).

This goodwill is generated as a result of the synergies of the business combination itself, based on such as aspects as optimisation of ENDESA's daily and intra-daily market position since the renewable asset offers, together with ENDESA's remaining generation portfolio in these markets, the reduction of management costs of the generation mix associated with the dispatch, auction and control centres, a fall in rerouting costs of ENEL Green Power España, S.L.U. (EGPE), greater hedging of the Group's energy supply business with the associated lower risk from a reduction in the short position, will enable the physical and financial position to be optimised.

At 31 December 2016, not even one year after the purchase of ENEL Green Power España, S.L.U. (EGPE), the business combination had been entered in accounts on a provisional basis, pending determination of the final conclusions concerning the appraisal of certain compensatory assets and contingent liabilities (see note 16.3)

Accordingly, at the date on which these Consolidated Financial Statements were drawn up, ENDESA was still working on the final assignation of the purchase price, and this is expected to be completed within the timeframe of one year from the purchase date.

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

Millions of euros

	Notes	2016	2015
Net profit from previous 40% stake (1)	10.1	7	10
Net profit from 100% stake (2)	-	-	N/A
Income		118	N/A
Contribution margin		104	N/A
Gross operating profit (EBITDA) (3)		75	N/A
Operating profit (EBIT) (4)		16	N/A
Net profit/loss of companies accounted for using the equity method and others Investment		4	N/A
Income tax		6	N/A
Impairment of holding (5)	10.1	(72)	-
Net result of fair value appraisal (6)	10.1	(4)	N/A
Reversal of deferred tax liabilities (7)	21	81	-
TOTAL		**38**	**10**

(1) Corresponds to the previous 40% stake up to 27 July 2016, the date of the takeover.
(2) Corresponds to the 100% stake from 27 July 2016, the date of the takeover, to 31 December 2016.
(3) Gross operating profit (EBITDA) = Income – Supplies and Services + Work carried out by the Group for its assets – Personnel expenses – Other Operating fixed expenses.
(4) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and impairment losses.
(5) This corresponds to the booking of impairment of Euros 72 million prior to the takeover, considering that the recovery value of ENDESA's 40% holding in ENEL Green Power España, S.L.U. (EGPE) was lower than the carrying amount.
(6) This corresponds to the 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).
(7) 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.

Had the takeover occurred at 1 January 2016,ther ordinary revenue and the profit after tax generated by this transaction in 2016 would have amounted to Euros 289 million and Euros 51 million, respectively, of which Euros 3 million would have been corresponded to non-controlling interests.

5.2. Acquisition of Eléctrica del Ebro, S.A.

On 28 July 2016, ENDESA purchased all the shares of Eléctrica del Ebro, S.A. for Euros 21 million (see Note 2.3.1).

Eléctrica del Ebro, S.A. engages in the distribution and marketing of electricity in the province of Tarragona, which has approximately 20,000 customers in the area ranging from Hospitalet-Vandellós and Delta del Ebro and Amposta. Through this acquisition, ENDESA reinforces its distribution business.

The net cash outflow from the acquisition of Eléctrica del Ebro, S.A. was calculated as follows:

Millions of Euros

Cash and cash equivalents of the acquiree	(1)
Net amount paid in cash (*)	19
TOTAL	**18**

(*)The total price of the transaction was 21 million euros, of which 2 million euros are pending disbursement, subject to compliance with certain contractual provisions. The purchase costs booked under "Other fixed operating expenses" in the consolidated income statement are less than Euros 1 million.

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

Million Euros

	Notes	Fair value
Non-current assets		**27**
Property, plant and equipment	6	26
Deferred tax assets	21	1
Current assets		**6**
Trade and other receivables		3
Current financial assets		1
Cash and cash equivalents		2
TOTAL ASSETS		**33**
Non-current liabilities		**8**
Deferred income	15	3
Deferred tax liabilities	21	5
Current liabilities		**6**
Current provisions		2
Trade and other payables		4
TOTAL LIABILITIES		**14**
Fair value of net assets acquired		**19**

The difference between the cost of the business combination and the fair value of these assets and liabilities generated goodwill of Euros 2 million, which is not tax deductible (see Note 9). This goodwill is generated by the synergies arising from improvements in fixed costs inherent in the merger.

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, established in Royal Decree 1048/2013, of 27 December, and in Order IET 2660/2015, of 11 November.

Profit after taxes generated in the period from the acquisition date until 31 December 2016 amounted to Euros 1 million. Had the acquisition taken place on 1 January 2016, ordinary revenue and profits after taxes generated from this transaction in 2016 would have amounted to Euros 10 million and Euros 2 million, respectively.

2015

On 1 November, 2015, ENDESA, S.A. signed an agreement with Galp Energía España, S.A. and Petróleos de Portugal – Petrogal S.A., Sucursal en España to acquire the residential segment of the natural gas supply business in Spain through the acquisition of 100% of the shares in Madrileña Suministro de Gas, S.L.U. and Madrileña Suministro de Gas Sur, S.L.U. for their subsequent takeover by ENDESA Energía, S.A.U. and ENDESA Energía XXI, S.L.U., respectively (see Note 2.3.1).

The outlay for this transaction was Euros 35 million. The fair value of Madrileña Suministro de Gas, S.L.U. y Madrileña Suministro de Gas Sur, S.L.U.'s assets and liabilities was as follows:

Million Euros

	Notes	Fair value
Non-current assets		**26**
Property, plant and equipment		-
Intangible assets	8	26
Non-current financial assets		-
Deferred tax assets		-
Current assets		**43**
Inventories		-
Trade and other receivables		26
Current financial assets		-
Cash and cash equivalents		17
TOTAL ASSETS		**69**
Non-current liabilities		**10**
Non-current provisions		-
Non-current interest-bearing loans and borrowings		-
Other non-current liabilities		-
Deferred tax liabilities		10
Current liabilities		**24**
Current interest-bearing loans and borrowings		-
Current provisions		-
Trade and other payables		24
TOTAL LIABILITIES		**34**
Fair value of net assets acquired (*)		**35**

(*) The main revalued assets belong to the category of Intangible Assets (see Note 8).

The net outflow of cash arising from the acquisition of Madrileña Suministro de Gas, S.L.U. and Madrileña Suministro de Gas Sur, S.L.U. was as follows:

Million Euros

Cash and cash equivalents of the acquiree	17
Amount paid in cash	(35)
Acquisition costs recognised with a charge to the consolidated income statement (*)	-
TOTAL	**(18)**

(*) The acquisition costs recorded under "Other Operating Fixed Expenses" in the Consolidated Statement of Income are less than 1 million euros.

Since Madrileña Suministro de Gas, S.L.U. and Madrileña Suministro de Gas Sur, S.L.U. were taken over, they have generated positive results amounting to less than EUROS 1 million. Had the acquisition taken place on 1 January, 2015, profits after taxes generated by these companies until 31 December 2015 would have amounted to Euros 1 million.

The measurement of the fair value of the client portfolio acquired from Madrileña Suministro de Gas, S.L.U. and Madrileña Suministro de Gas Sur, S.L.U. was performed based on discounted future cash flows equivalent to those in the sector and similar transactions based on the expected trend of the portfolio when the business combination takes place.

6. Property, plant and equipment

Details of property, plant and equipment at 31 December 2016 and 2015 and movements in the years then ended are as follows:

Million Euros

Property, plant and equipment in use and under construction	31 December 2016			
	Cost	Accumulated depreciation	Impairment losses	Total property, plant and equipment
Land and buildings	766	(296)	(53)	417
Electricity generating facilities:	26,016	(16,662)	(10)	9,344
Hydroelectric power plants	3,291	(2,468)	(10)	813
Coal-fired/fuel-oil power plants	7,962	(6,061)	-	1,901
Nuclear power plants	9,934	(6,895)	-	3,039
Combined cycle plants	3,765	(1,209)	-	2,556
Renewable energy plants	1,064	(29)	-	1,035
Transmission and distribution facilities	20,409	(9,084)	-	11,325
Low- and medium-voltage, measuring and remote control equipment and other installations	20,409	(9,084)	-	11,325
Other property, plant and equipment	616	(389)	(101)	126
Property, plant and equipment under construction	744	-	(65)	679
TOTAL	**48,551**	**(26,431)**	**(229)**	**21,891**

Million Euros

Property, plant and equipment in use and under construction	31 December 2015			
	Cost	Accumulated depreciation	Impairment losses	Total property, plant and equipment
Land and buildings	663	(321)	(78)	264
Electricity generating facilities:	24,444	(16,146)	(20)	8,278
Hydroelectric power plants	3,242	(2,403)	(10)	829
Coal-fired/fuel-oil power plants	7,853	(5,857)	(10)	1,986
Nuclear power plants	9,573	(6,761)	-	2,812
Combined cycle plants	3,759	(1,119)	-	2,640
Renewable energy plants	17	(6)	-	11
Transmission and distribution facilities	19,936	(8,655)	-	11,281
Low- and medium-voltage, measuring and remote control equipment and other installations	19,936	(8,655)	-	11,281
Other property, plant and equipment	644	(418)	(72)	154
Property, plant and equipment under construction	901	-	(63)	838
TOTAL	**46,588**	**(25,540)**	**(233)**	**20,815**

Million of Euros

Property, plant and equipment in use and under construction	Balance at 31 December 2015	Inclusion/excl. of companies (Note 5)	Investments	Disposals	Transfers and other (*)	Transfers to non-current assets held for sale (**)	Balance at 31 December 2016
Land and buildings	663	142	-	(67)	29	(1)	766
Electricity generating facilities:	24,444	1, 061	55	(74)	531	(1)	26,016
Hydroelectric power plants	3,242	14	-	(6)	41	-	3,291
Coal-fired/fuel-oil power plants	7,853	-	22	(38)	125	-	7,962
Nuclear power plants	9,573	-	24	(21)	358	-	9,934
Combined cycle plants	3,759	-	2	(1)	5	-	3,765
Renewable energy plants	17	1,047	7	(8)	2	(1)	1,064
Transmission and distribution facilities	19,936	33	3	(153)	591	(1)	20,409
Low- and medium-voltage, measuring and remote control equipment and other installations	19,936	33	3	(153)	591	(1)	20,409
Other property, plant and equipment	644	3	8	(52)	13	-	616
Property, plant and equipment under construction	901	35	919	-	(1,102)	(9)	744
TOTAL	**46,588**	**1,274**	**985**	**(346)**	**62**	**(12)**	**48,551**

(*) Includes the application to property, plant and equipment of changes to the estimated costs of dismantling the facilities (see Note 16.3).
(**) In 2016, the property, plant and equipment of Energías de la Mancha Eneman, S.A. and Energía de la Loma, S.A. was transferred to the "Non-current assets held for sale" heading. (see Notes 2.3.1 and 32).

Million of Euros

Amortisation and impairment losses	Balance at 31 December 2015	Inclusion/excl. of companies (Note 5)	Charges (*)	Disposals	Transfers and other	Transfers to non-current assets held for sale (**)	Balance at 31 December 2016
Land and buildings	(399)	-	(16)	66	-	-	(349)
Electricity generating facilities:	(16,166)	-	(575)	71	(2)	-	(16,672)
Hydroelectric power plants	(2,413)	-	(69)	6	(2)	-	(2,478)
Coal-fired/fuel-oil power plants	(5,867)	-	(228)	37	(3)	-	(6,061)
Nuclear power plants	(6,761)	-	(155)	21	-	-	(6,895)
Combined cycle plants	(1,119)	-	(94)	1	3	-	(1,209)
Renewable energy plants	(6)	-	(29)	6	-	-	(429)
Transmission and distribution facilities	(8,655)	-	(584)	151	4	-	(9,084)
Low- and medium-voltage, measuring and remote control equipment and other installations	(8,655)	-	(584)	151	4	-	(9,084)
Other property, plant and equipment in process	(553)	-	(55)	53	-	-	(563)
TOTAL	**(25,773)**	**-**	**(1,230)**	**341**	**2**	**-**	**(26,660)**

(*) Includes impairment losses of Euros 22 million (see Note 28). The 2016 impairment provision amounted to Euros 1,208 million (see Note 28).

Million Euros

Property, plant and equipment in use and under construction	Balance at 31 December 2014	Inclusion/excl. of companies	Investments	Disposals	Transfers and other (*)	Translation Differences	Transfers to Non-current Assets Held for Sale	Balance at 31 December 2015
Land and buildings	728	-	-	(52)	(13)	-	-	663
Electricity generating facilities:	24,580	-	58	(383)	189	-	-	24,444
Hydroelectric power plants	3,171	-	-	(1)	72	-	-	3,242
Coal-fired/fuel-oil power plants	8,126	-	21	(345)	51	-	-	7,853
Nuclear power plants	9,510	-	35	(36)	64	-	-	9,573
Combined cycle plants	3,756	-	2	(1)	2	-	-	3,759
Renewable energy plants	17	-	-	-	-	-	-	17
Transmission and distribution facilities	19,460	-	1	(172)	647	-	-	19,936
Low- and medium-voltage, measuring and remote control equipment and other installations	19,460	-	1	(172)	647	-	-	19,936
Other property, plant and equipment	698	-	18	(81)	9	-	-	644
Property, plant and equipment under construction	868	-	838	-	(805)	-	-	901
TOTAL	**46,334**	**-**	**915**	**(688)**	**27**	**-**	**-**	**46,588**

(*) Includes the application to property, plant and equipment of changes to the estimated costs of dismantling the facilities (see Note 16.3).

Million Euros

Amortisation and impairment losses	Balance at 31 December 2014	Inclusion/excl. of companies	Charges(*)	Disposals	Transfers and other	Translation Differences	Transfers to Non-current Assets Held for Sale	Balance at 31 December 2015
Land and buildings	(455)	-	(8)	50	14	-	-	(399)
Electricity generating facilities:	(15,978)	-	(552)	383	(19)	-	-	(16,166)
Hydroelectric power plants	(2,328)	-	(66)	1	(20)	-	-	(2,413)
Coal-fired/fuel-oil power plants	(5,972)	-	(240)	345	-	-	-	(5,867)
Nuclear power plants	(6,647)	-	(151)	36	1	-	-	(6,761)
Combined cycle plants	(1,026)	-	(94)	1	-	-	-	(1,119)
Renewable energy plants	(5)	-	(1)	-	-	-	-	(6)
Transmission and distribution facilities	(8,230)	-	(586)	171	(10)	-	-	(8,655)
Low- and medium-voltage, measuring and remote control equipment and other installations	(8,230)	-	(586)	171	(10)	-	-	(8,655)
Other property, plant and equipment in process	(567)	-	(67)	81	-	-	-	(553)
TOTAL	**(25,230)**	**-**	**(1,213)**	**685**	**(15)**	**-**	**-**	**(25,773)**

(*) Included impairment losses of Euros 53 million (see Note 28). The 2015 impairment provision amounted to Euros 1,160 million (see Note 28).

Property, plant and equipment include the following co-owned assets:

Million Euros

	% ownership	31 December 2016	31 December 2015
Central Nuclear Vandellós II, C.B.	72%	875	884
Central Nuclear Ascó II, C.B.	85%	682	682
Central Nuclear de Almaraz, C.B.	36%	378	374
Central Térmica de Anllares, C.B.	33%	9	-
Saltos del Navia, C.B	50%	14	15

6.1. Additional information on property, plant and equipment

Main investments

Details of investments in property, plant and equipment in 2016 and 2015 are as follows:

Million Euros

Property, plant and equipment (1)	**2016 (1) (2)**	**2015**
Generation and Supply	388	328
Distribution	595	585
Other	2	2
TOTAL	**985**	**915**

(1) This does not include investment in ENEL Green Power España, S.L.U. (EGPE) or in Eléctrica del Ebro, S.A.
(2) Includes investment by ENEL Green Power España, S.L.U. (EGPE) since the takeover date in the amount of Euros 12 million.

Gross generation investments in 2016 related largely related to plants that were already operating at 31 December 2015, as well as investments in the Litoral coal plants in the amount of Euros 83 million (2015: Euros 59 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.

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

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

Finance leases

At 31 December 2016 and 2015, property, plant and equipment included Euros 466 million and Euros 493 million, respectively, reflecting the carrying amount of assets held under finance leases (see Note 17.1). Future payments foreseen and their current value follow:

Million Euros

Term	**Future payments envisaged**		**Present value of future payments**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Up to one year	51	52	23	22
Between one year and five years	191	193	89	87
More than five years	551	597	385	408
Total	**793**	**842**	**497**	**517**
Interest	(296)	(325)	N/A	N/A
Present value of future payments envisaged	**497**	**517**	**N/A**	**N/A**

In general, the amount of leases with purchase options coincides with the amount of the last instalment.

Assets under finance leases primarily arise from ENDESA Generación, S.A.U. on a 25-year tolling contract, of which 19 years remain, with Elecgas, S.A. (a proportionately consolidated company in which ENDESA Generación, S.A.U. holds a 50% interest), whereby Elecgas, S.A. makes the entire production capacity of its plant available to ENDESA Generación, S.A.U. and undertakes to transform the gas supplied into electricity in exchange for a financial charge.

Operating leases

Lessee

The consolidated income statement for 2016 includes Euros 34 million (Euros 29 million in 2015) relating to the maturity of property, plant and equipment in use under operating leases (see Note 27).

ENDESA leases its headquarters. On 14 February 2013, the new lease terms and duration renegotiated in prior years came into effect, extending the current lease for another 10 years (2013-2023). In addition, ENDESA leases certain buildings where offices are located, whose maturity ranges from 1 to 12 years.

Also, ENDESA leases certain technical equipment (e.g. lines and electricity generators). The leases have a duration of approximately 2 years, with renewal negotiated upon maturity of the lease. Furthermore, it has entered into lease arrangements for certain items of transport equipment.

Future lease payments on these leases are as follows:

Million Euros

Term	31 December 2016	31 December 2015
Up to one year	29	25
Between one year and five years	105	78
More than five years	143	66
TOTAL	**277**	**169**

Environment

In 2016, ENDESA's investment in environmental protection activities totalled Euros 108 million (Euros 84 million in 2015), with accumulated investment at 2016 year-end of Euros 1,525 million (Euros 1,441 million at 2015 year-end).

Environmental expenses amounted to Euros 80 million in 2016 (Euros 99 million in 2015). Of this total expenditure, Euros 25 million corresponded to the provision for depreciation of the abovementioned investments (Euros 41 million in 2015).

Impairment test

As a result of the impairment tests carried out in 2016, an impairment net provision was set aside for land in the amount of Euros 22 million (see Note 28), corresponding to:

- Generation assets, reversion of Euros 7 million of assets of Unión Eléctrica de Canarias Generación, S.A.U. (see Note 33.2), which are going to continue in operation, and for which the corresponding decommissioning provision, amounting to Euros 5 million, was recognised, constituting the full value of the property, plant and equipment tied to these assets.

- Distribution assets, provision for the impairment of land, amounting to Euros 29 million, arising from appraisals performed by other parties (see Note 33.2).

The recoverable amount of these assets at 31 December 2016 is as follows:

Million Euros

	2016
Generation assets	5
Land	34
TOTAL	**39**

The provision set aside for impairment during 2015 amounted to Euros 53 million (see note 28), mainly corresponding to:

- Generation assets totalling Euros 46 million (see Note 33.2):

- Impairment amounting to Euros 7 million, arising from studies related to projects in course at various electricity generation plants that will not take place, in accordance with the latest industrial plan approved.

- Impairment of the project studies and other assets related to the project to increase capacity at the Moralets thermal power plant (Euros 21 million), due to the decision made to abandon the plan.

- Impairment of the costs that are not expected to be recovered associated with the development of the project for the construction of the Girabolhos hydroelectric plant project in Portugal, amounting to Euros 10 million (see note 35.1).

- Impairment of Euros 8 million corresponding to generation assets that are expected to be outside the mainland system.

– Distribution assets amounting to Euros 7 million (see Note 33.2):

- Impairment of land, amounting to Euros 7 million, arising from appraisals performed by other parties.

The recoverable value of these assets at 31 December, 2015 follows:

Million Euros

	2015
Fuel and hydraulic power plant projects	-
Moralets hydraulic plant project	-
Girabolhos hydroelectric power plant	-
Land	62
Other	-
TOTAL	**62**

Other information

On 28 May 2014, ENDESA applied for authorisation from the Ministry of Energy, Tourism and Digital Agenda's General Department of Energy Policy and Mines to shut down the Foix thermal power plant in Cubelles, Barcelona. On 10 March 2015, the Spanish Markets and Competition Commission (CNMC) granted this authorisation to ENDESA Generación, S.A.U. to close this thermal plant, and therefore, in 2015, this plant was derecognised. It was fully depreciated, and had a cost and accumulated depreciation of Euros 272 million. At 31 December 2016, the decommissioning provision recognised under Non-current provisions in the consolidated statement of financial position amounted to Euros 13 million (Euros 14 million at 31 December 2015) (see Note 16.3).

On 12 November 2015, the Ministry of Energy, Tourism and Digital Agenda's General Directorate of Energy Policy and Mines authorised the definitive closure of Group 2 of the Compostilla thermal plant, located in Cubillos del Sil (León), with an accumulated cost and amortisation at 31 December 2015 of 58 million euros. At 31 December 2016 and 2015, a dismantling provision had been set aside, which is recognised under Non-current provisions in the consolidated statement of financial position for Euros 10 million (see Note 16.3).

The detail of property, plant and equipment from the main geographical areas where ENDESA operates is as follows:

Million Euros

	31 December 2016	31 December 2015
Spain	21,461	20,363
Portugal	430	452
TOTAL	**21,891**	**20,815**

At 31 December 2016, ENDESA companies had commitments to purchase property, plant and equipment amounting to Euros 338 million (Euros 606 million at 31 December 2015), which relate mostly to investments in generation at ENDESA's production park, most of which will be made in 2017 and 2019, and to distribution investments focused on extending or improving the network, as well as remote management smart meters, foreseen until 2018.

At 31 December 2016 and 2015, there were no commitments to purchase property, plant and equipment from joint ventures.

Fully depreciated property, plant and equipment still in use had a cost of Euros 415 million at 31 December 2016 (Euros 242 million at 31 December 2015).

At 31 December 2016, property, plant and equipment amounting to Euros 178 million had been pledged to secure financing received from third parties (see Notes 17.2 and 35.1). At 31 December 2015, there was no property, plant and equipment to guarantee third-party financing.

ENDESA and its subsidiaries have taken out insurance policies to cover the risk of damage to their property, plant and equipment and any claims that could be filed against them in their business activities. The company considers the coverage of these policies to be sufficient. The possible loss of profits that could result from outages at the plants is also covered by certain assets. In 2016, pay-outs from insurance companies in relation to property damage arising from accidents amounted to Euros 3 million (Euros 29 million in 2015).

Under current legislation in Spain and pursuant to Law 24/2013 of 26 November on the electricity sector, ENDESA is insured for up to Euros 700 million against third-party liability claims for possible nuclear accidents at its plants. Any loss or damage in excess of this amount would be governed by the international conventions entered into by the Spanish state. The nuclear power plants are also insured against damage to their installations (including stocks of nuclear fuel) and machinery breakdowns, with maximum coverage of $1,500 million (approximately Euros 1,355 million) for each power plant.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May, on civil liability for nuclear damages or damages produced by radioactive materials which raises operator liability to Euros 1,200 million, while also allowing operators to cover this liability in several ways. The entry into force of this regulation is, in turn, subject to the entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention), which was only pending ratification by certain European Union member States at the date on which these Consolidated Financial Statements were drawn up.

7. Investment property

Details of investment property and movement in 2016 and 2015 were as follows:

Million Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Note 5)	Investments	Transfers of properties	Disposals due to sale	Other	Transfers to non-current assets held for sale	Balance at 31 December 2016
Investment property in Spain and Portugal	21	-	-	-	-	(1)	-	20
TOTAL	**21**	**-**	**-**	**-**	**-**	**(1)**	**-**	**20**

Million Euros

	Balance at 31 December 2014	Inclusion/excl. of companies	Investments	Transfers of properties	Disposals due to sale	Other	Transfers to non-current assets held for sale	Balance at 31 December 2015
Investment property in Spain and Portugal	22	-	-	(1)	-	-	-	21
TOTAL	**22**	**-**	**-**	**(1)**	**-**	**-**	**-**	**21**

7.1. Additional information on real estate investments

At 31 December, 2016 and 2015, all of ENDESA's real estate investments are located in Spain.

The market value of investment properties at 31 December 2016 was Euros 59 million (Euros 58 million at 31 December 2015) (see Notes 3b and 18.6.2).

At 31 December 2016 y 2015, none of the investment properties were fully depreciated and there were no restrictions on their sale. Direct expenses recognised in the 2016 and 2015 consolidated income statements for investment property were not material. At 31 December 2016 and 2015, ENDESA held no contractual obligations to purchase, build or develop any investment property, or any obligations concerning repairs, maintenance and improvements, except for those commitments of Nueva Marina Real Estate, S.L. related with the urban development work agreed upon with the Malaga Municipal Council.

ENDESA has taken out insurance policies to cover the risk of damage to its investment property and any claims that could be filed against it in its business activities. The Group considers that coverage provided by these policies is sufficient.

8. Intangible assets

The balances of intangible assets at 31 December 2016 and 2015 are as follows:

Millions of Euros

	31 December 2016			
	Cost	Accumulated depreciation	Impairment losses	Net amount
Software	1,271	(862)	-	**409**
Concessions	105	(23)	(60)	**22**
Other	824	(83)	-	**741**
TOTAL	**2,200**	**(968)**	**(62)**	**1,172**

Millions of Euros

	31 December 2015			
	Cost	Accumulated depreciation	Impairment losses	Net amount
Software	1,230	(870)	-	**360**
Concessions	101	(22)	(65)	**14**
Other	107	(53)	-	**54**
TOTAL	**1,438**	**(945)**	**(65)**	**428**

Details of intangible assets and movement in 2016 and 2015 are as follows:

Millions of Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Note 5)	Investments	Depreciation, amortisation, and impairment losses (*)	Disposals	Transfers and other	Transfers to non-current assets held for sale (**)	Balance at 31 December 2016
Software	360	8	141	(100)	-	-	-	409
Concessions and others	69	749	2	(33)	-	-	(23)	763
TOTAL	**428**	**757**	**143**	**(133)**	**-**	**-**	**(23)**	**1,172**

(*) Includes the reversal of a Euros 5 million impairment loss (see Note 28). The 2016 depreciation and amortisation charge amounted to Euros 138 million (see note 25).
(**) In 2016, the intangible assets of Energías de la Mancha Eneman, S.A. and Energía de la Loma, S.A. was transferred to the "Non-current assets held for sale" heading. (see Notes 2.3.1 and 32).

Million of Euros

	Balance at 31 December 2014	Inclusion/(exclusion) of companies (Note 5)	Investments	Depreciation, amortisation, and impairment losses (*)	Disposals	Transfers and other	Transfers to non-current assets held for sale	Balance at 31 December 2015
Software	356	-	107	(88)	-	(15)	-	360
Concessions and others	32	26	3	(8)	-	15	-	68
Other	19	26	3	(8)	-	14	-	54
TOTAL	**388**	**26**	**110**	**(96)**	**-**	**-**	**-**	**428**

(*) Included the reversal of impairment losses of Euros 1 million (see Note 28). The amortization charge for the financial year 2015 was 97 million euros (see Note 28).

8.1. Additional information on intangible assets

Inclusion/(exclusion) of companies

In 2016 the "Concessions and Other" caption includes, basically, the assets corresponding to the takeover of ENEL Green Power España, S.L.U. (EGPE) (see Note 5). As a consequence of the process of allocating the purchase price, a higher value of Intangible Assets has been recorded, basically corresponding to the value of the authorizations for the exploitation of wind farms.

In 2015, 100% of the stake in Madrileña Suministro de Gas, S.L.U., and Madrileña Suministro de Gas Sur, S.L.U. was acquired, which were subsequently merged by absorption into ENDESA Energía, S.A.U. and ENDESA Energía XXI, S.L.U., respectively (see Note 5). As a result of this transaction, at 31 December 2015, intangible assets included Euros 26 million, relating mainly to the customer portfolio acquired.

Main investments

Details of investments in intangible assets in 2016 and 2015 are as follows:

Million Euros

Intangible investments (1)	2016 (1) (2)	2015
Generation and supply	57	47
Distribution	55	37
Other	31	26
TOTAL	**143**	**110**

(1) This does not include the investment in ENEL Green Power España, S.L.U. (EGPE) or in Eléctrica del Ebro, S.A.
(2) Includes investments made by ENEL Green Power España, S.L.U. (EGPE) since the takeover date in the amount of Euros 2 million.

Investments in 2016 and 2015 mainly corresponded to software.

Impairment test

During 2016, an impairment loss reversal amounting to Euros 5 million was recognised (see Note 28), which chiefly corresponded to the provision set aside during prior years for the Distribuidora Eléctrica del Puerto de la Cruz, S.A.U. concession, arising from an increase in forecasted cash flows (Euros 1 million in 2015). The recoverable amount of this concession at 31 December 2016 is Euros 23 million (Euros 18 million at 31 December 2015).

Other information

The detail of intangible assets from the main geographical areas where ENDESA operates is as follows:

Million Euros

	31 December 2016	31 December 2015
Spain	1,172	428
Portugal	-	-
TOTAL	**1,172**	**428**

At 31 December 2016, ENDESA had commitments to purchase intangible assets amounting to Euros 2 million (Euros 2 million at 31 December 2015). Joint ventures had no commitments to acquire intangible assets at 31 December 2016 and 2015.

Fully amortised intangible assets still in use had a cost of Euros 157 million at 31 December 2016 (Euros 163 million at 31 December 2015).

9. Goodwill

In 2016, 60% of the holding in ENEL Green Power España, S.L.U. was acquired. (EGPE), which led to the takeover of this company (see Note 5). 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) (see Note 10.1), generated provisional goodwill in the amount of Euros 298 million (see Note 5).

In 2016, 100% of the holding in Eléctrica del Ebro, S.A. was acquired. The difference between the cost of the business combination and the fair value of these assets and liabilities generated goodwill of Euros 2 million (see Note 5).

A breakdown of goodwill by the different cash-generating units (CGUs) or groups of CGUs to which it is allocated and movements during 2016 follows:

Million Euros

	Balance at 31 December 2015	Business combinations (Note 5)	Disposals	Impairment losses	Transfers and other	Balance at 31 December 2016
ENEL Green Power España, S.L.U. (EGPE) (*)	-	298	-	-	-	298
Eléctrica del Ebro, S.A. (**)	-	2	-	-	-	2
TOTAL	**-**	**300**	**-**	**-**	**-**	**300**

(*) Goodwill assigned to the Generation Cash-Generating Unit (CGU) (see Note 33.2).
(**) Goodwill assigned to the Distribution Cash-Generating Unit (CGU) (see Note 33.2).

Total Goodwill relates to the geographical area of Spain-

At 31 December 2016, ENDESA assessed the recoverability of this Goodwill, for which it performed an impairment test on the Cash Generating Units (CGU) to which these assets were assigned. The basic methodology and assumptions considered to perform these impairment tests are indicated in 3e.2.

ENDESA performed a sensitivity analysis of the results of the impairment test, through variations in the assumptions considered in this calculation in the first five years of the projection, on an isolated basis, assuming a variation of 50 basis points in the discount and growth rates considered. The results of the sensitivity analyses performed and set forth in Note 3.e.2 indicate that none of the adverse movements for ENDESA in the values considered for each mentioned assumptions individually would indicate any impairment of assets.

10. Investments accounted for using the equity method and joint operation entities

10.1. Investments accounted for using the equity method

The breakdown of investments accounted for using the equity method at 31 December 2016 and 2015 is as follows:

Million Euros

	31 December 2016	31 December 2015
Associates	77	903
Joint ventures	131	184
TOTAL	**208**	**1,087**

Loans and guarantees granted to associates and joint ventures at 31 December 2016 and 2015, as well as related transactions therewith in 2016 and 2015 are detailed in Notes 18.1.1 and 34.2.

ENDESA's main associates and joint ventures accounted for using the equity method and movement in 2016 and 2015 are as follows:

Million Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Notes 2.4, 2.5 and 5)	Investments or increases	Disposals or reductions	Share of profit/(loss) of equity-accounted investees	Dividends	Transfers and other	Transfers to non-current assets held for sale (Note 32)	Balance at 31 December 2016
Associates	**903**	**(771)**	**-**	**-**	**(57)**	**(2)**	**4**	**-**	**77**
ENEL Green Power España, S.L.U. (EGPE)	870	(805)	-	-	(69) (1)	-	4	-	-
Tecnatom, S.A.	33	-	-	-	1	-	-	-	34
Elcogas, S.A.	-	-	-	-	-	-	-	-	-
Other	-	34	-	-	11	(2)	-	-	43
Joint ventures	**184**	**7**	**25**	**-**	**(1)**	**(20)**	**9**	**(73)**	**131**
ENEL Insurance, N.V.	63	-	-	-	6 (2)	-	4	(73)	-
Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.	62	7	-	-	10	(9)	-	-	70
Nuclenor, S.A.	-	-	25	-	(38)	-	13	-	-
Other	59	-	-	-	20	(11)	(7)	-	61
TOTAL	**1,087**	**(764)**	**25**	**-**	**(59)**	**(22)**	**14**	**(73)**	**208**

(1) Result obtained up to the date of the takeover (see Note 5.)
(2) Result obtained up to the date of divestiture (see Note 2.5).

Million Euros

	Balance at 31 December 2014	Inclusion/(exclusion) of companies	Investments or increases	Disposals or reductions	Share of Profit/(Loss) of Equity-Accounted Investees	Dividends	Transfers and other	Transfers to non-current assets held for sale (Note 32)	Balance at 31 December 2015
Associates	**888**	**-**	**-**	**-**	**12**	**-**	**8**	**(5)**	**903**
ENEL Green Power España, S.L.U. (EGPE)	852	-	-	-	10	-	8	-	870
Tecnatom, S.A.	31	-	-	-	2	-	-	-	33
Elcogas, S.A.	-	-	-	-	-	-	-	-	-
Other	5	-	-	-	-	-	-	(5)	-
Joint ventures	**216**	**-**	**24**	**-**	**(27)**	**(16)**	**28**	**(41)**	**184**
ENEL Insurance, N.V.	99	-	-	-	5	-	-	(41)	63
Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.	60	-	-	-	8	(6)	-	-	62
Nuclenor, S.A.	-	-	24	-	(58)	-	34	-	-
Other	57	-	-	-	18	(10)	(6)	-	59
TOTAL	**1,104**	**-**	**24**	**-**	**(15)**	**(16)**	**36**	**(46)**	**1,087**

Associates

The following table reflects information at 31 December 2016 and 2015 taken from the financial statements of the main jointly-controlled entities, used to prepare the accompanying Consolidated Financial Statements:

Million Euros

	Statement of Financial Position					
	ENEL Green Power España, S.L.U. (EGPE) (Note 5)		Tecnatom, S.A		Elcogas, S.A.	
	31 December 2016 (note 5)	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-current assets	N/A	2,257	77	77	1	3
Current assets	N/A	933	58	69	47	53
Cash and cash equivalents	**N/A**	47	5	5	46	19
Other current assets	N/A	886	53	64	1	34
Total assets	**N/A**	**3,190**	**135**	**146**	**48**	**56**
Equity	N/A	1,924	78	72	(107)	(101)
Non-current liabilities	N/A	1,008	31	28	129	129
Non-current Financial Debt	N/A	717	30	26	129	129
Other non-current liabilities	N/A	291	1	2	-	-
Current liabilities	N/A	258	26	46	26	28
Interest-bearing loans and borrowings Current	N/A	100	9	8	-	-
Other current liabilities	N/A	158	17	38	26	28
Total equity and Liabilities	**N/A**	**3,190**	**135**	**146**	**48**	**56**

Millions of Euros

	Income Statement					
	ENEL Green Power España, S.L.U. (EGPE) (Note 5)		Tecnatom, S.A		Elcogas, S.A.	
	2016 (note 5)	2015	2016	2015	2016	2015
Revenue	N/A	607	88	104	18	58
Depreciation and impairment losses	N/A	(166)	(8)	(8)	-	-
Financial Income	N/A	17	-	1	-	-
Financial Expense	N/A	(81)	(1)	1	-	-
Profit/(loss) before tax	**N/A**	**264**	**1**	**6**	**(2)**	**(65)**
Income tax expense	4	2	-	(1)	-	-
Profit/(loss) from continuing operations	**N/A**	**266**	**1**	**5**	**(2)**	**(65)**
Profit/(loss) after tax from discontinued operations	**N/A**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income	**N/A**	**21**	**-**	**-**	**-**	**-**
Total Comprehensive Income	**N/A**	**287**	**1**	**5**	**(2)**	**(65)**

Details of these companies' equity for 2016 and 2015 correspond to information on the individual companies, except for 2016 for ENEL Green Power España, S.L.U. (EGPE) and 2015 and 2016 for Tecnatom, S.A. which correspond to their Consolidated Financial Statements.

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

2016

On 27 July 2016, 60% of the holding in ENEL Green Power España, S.L.U. (EGPE), was acquired by ENDESA, which led to its takeover (see Notes 2.3.1, 5 and 10) and, consequently, the company ceased to be accounted for using the equity method and became fully consolidated.

Prior to the aforementioned takeover, signs of impairment were observed on the carrying amount of the holding owned by ENDESA. Accordingly, at 30 June 2016, an impairment loss of Euros 72 million was recognised under "Loss of companies accounted for using the equity method" on the consolidated income statement for the negative difference between the two amounts.

Specifically, at that date, the recoverable value of ENEL Green Power España, S.L.U. (EGPE) was determined as the fair value of ENDESA's stake less costs of disposal. In this transaction, the fair value coincided with the value in use of this investment. Fair value was determined by discounting the estimated future cash flows from the investment in its ordinary business of electricity production using renewable energy sources in Spain, less ENDESA's proportionate share in the amount of debt at the reporting date and costs necessary to make the sale. This fair value measurement is classified as Level 3 in the fair value hierarchy.

The main key assumptions used to calculate the recoverable value of ENEL Green Power España, S.L.U. (EGPE) did not differ substantially from those considered at 31 December 2015, except regarding the forecast for energy selling prices. Specifically, the projections for the performance of energy sale prices for the coming five years experienced a drop of approximately 15-20% in comparison with the forecasts made at 31 December 2015. These new projections were verified by ENDESA against external sources (IHS, Bloomberg, Equity Research, Poyry, etc.) (see note 3e.2).

Lastly, as a result of the fair-value measurement of the non-controlling interest of 40% in ENEL Green Power España, S.L.U. (EGPE) on the takeover date, ENDESA recognised a loss of Euros 4 million under "Net Loss of Companies Accounted for using the Equity Method" in the consolidated income statement.

The reconciliation of the carrying amount of the shareholding in ENEL Green Power España, S.L.U. (EGPE) with financial information concerning the company at the takeover date is as follows:

Million Euros

	27 July 2016
Total equity of the Parent	**1,861**
Share in total equity (40%)	**744**
Goodwill	61
Fair value of the shareholding in the takeover	**805**

The result generated by ENEL Green Power España, S.L.U. (EGPE) prior to the takeover (see Note 5), recognised under the "Loss of companies accounted for using the equity method" heading in the consolidated income statement is as follows:

Million Euros

	2016	2015
Net profit from previous 40% stake (1)	7	10
Impairment of holding	(72)	-
Net result of fair value measurement	(4)	-
TOTAL (2)	**69**	**10**

(1) Corresponds to the results generated for the previous 40% stake up to 27 July 2016, the date of the takeover.
(2) In addition, as a consequence of the takeover, a deferred tax liability, amounting to Euros 81 million, has been reversed (see Notes 21 and 30).

2015

On 31 December 2015, 40% of the holding in ENEL Green Power España, S.L.U. (EGPE) was still held by ENDESA. The reconciliation of the carrying amount of the holding in ENEL Green Power España, S.L.U. (EGPE) with financial information concerning this company at 31 December 2015 was as follows:

Million Euros

	31 December 2015
Total equity of the Parent	**1,816**
Share in total equity (40%)	**726**
Goodwill	144
Carrying amount of investment	**870**

Million Euros

	2015
Profit/(loss) of the Parent	254
Profit/(loss) of the Parent (40%)	102
Goodwill	(92)
Net profit/(loss) of companies accounted for using the equity method (40%)	10

In 2015, ENEL Green Power España, S.L.U. (EGPE) disposed of its business in Portugal through the sale of its investment in the share capital of Finerge Gestão de Projectos Energéticos, S.A. (Portugal) to First State Wind Energy Investments, S.A., which led to a decrease of Euros 92 in the amount of goodwill recognised as part of the carrying amount of this investment.

Elcogas, S.A.

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

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

ENDESA has recognised a provision to cover the estimated costs it will incur as a result of the closure of this plant described above, amounting to Euros 55 million at 31 December 2016 and 2015 (see Note 16.3).

Joint ventures

The table below shows information at 31 December 2016 and 2015 taken from the financial statements of the main joint ventures, used to prepare the accompanying Consolidated Financial Statements:

Million Euros

	Statement of Financial Position					
	ENEL Insurance, N.V.		Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.		Nuclenor, S.A.	
	31 December 2016 (note 2.5)	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-current assets	N/A	111	277	326	48	69
Current assets	N/A	516	135	140	88	79
Cash and cash equivalents	N/A	327	94	102	1	1
Other current assets	N/A	189	41	38	87	78
Total assets	**N/A**	**627**	**412**	**466**	**136**	**148**
Equity	N/A	207	164	162	(39)	(19)
Non-current liabilities	N/A	293	163	214	97	98
Non-current Financial Debt	N/A	-	149	198	-	-
Other non-current liabilities	N/A	293	14	16	97	98
Current liabilities	N/A	127	85	90	78	69
Interest-bearing loans and borrowings Current	N/A	-	49	44	-	-
Other current liabilities	N/A	127	36	46	78	69
Total equity and Liabilities	**N/A**	**627**	**412**	**466**	**136**	**148**

Million Euros

	Income Statement					
	ENEL Insurance, N.V (Note 5)		Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.		Nuclenor, S.A.	
	2016 (note 2.5)	2015	2016	2015	2016	2015
Revenue	N/A	131	207	221	7	8
Depreciation and impairment losses	N/A	-	(54)	(53)	(3)	(3)
Financial Income	N/A	22	-	-	-	-
Financial Expense	N/A	(1)	(1)	(2)	(1)	(2)
Profit/(loss) before tax	N/A	**13**	**31**	**29**	**(67)**	**(42)**
Income tax expense	N/A	(3)	(9)	(8)	-	(4)
Profit/(loss) from continuing operations	N/A	**10**	**22**	**21**	**(67)**	**(46)**
Profit/(loss) after tax from discontinued operations	N/A	**-**	**-**	**-**	**-**	-
Other comprehensive income	N/A	**-**	**-**	**-**	**-**	-
Total Comprehensive Income	N/A	**10**	**22**	**21**	**(67)**	**(46)**

Details of these companies' equity for 2016 and 2015 correspond to information on the individual companies, except for ENEL Insurance, N.V., which in 2015 corresponded to their Consolidated Financial Statements.

ENEL Insurance N.V.

In 2016, ENDESA sold its entire stake in ENEL Insurance N.V. (representing 50% of its share capital) to ENEL Investment Holding B.V. in a deal worth Euros 114 million. The transaction had no impact on the 2016 consolidated income statement (see Note 2.5).

Prior to the transaction described in the preceding paragraph, in 2016, the indirect 100% stake in Compostilla Re, S.A. held through ENEL Insurance N.V., in which ENDESA held 50% of its share capital, was sold to CLT Holding AD for a total price of Euros 50 million. At 31 December 2015, this investment was recognised under "Non-current assets held for sale and discontinued operations" (see Note 32). The sale generated a gain of Euros 9 million included in the profit obtained by ENEL Insurance N.V. in the period.

Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A.

On 30 March 2016, ENDESA made a purchase from EDP – Gestão de Produção de Energia, S.A. of 48,854 shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A., in which ENDESA previously held a stake of 38.89%.

As a result of the transaction, the consideration of which amounted to Euros 7 million, ENDESA has increased its investment in the share capital of Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A to 43.75% (see Note 2.5).

Nuclenor, S.A.

The main business of Nuclenor, S.A. is the operation of the nuclear power plant it owns at Santa María de Garoña, the operating permit for which expired on 6 July 2013. Accordingly, Santa María de Garoña, the main asset of Nuclenor, S.A., was not operational in 2016 and 2015, and the company is now ceasing its operations and has thus reached the pre-dismantling phase.

Pursuant to Royal Decree 102/2014, of 21 February 2014, on the responsible and safe management of spent nuclear fuel and radioactive waste, which entitled Nuclenor, S.A. to submit an application prior to 6 July 2014 to extend Santa María de Garoña's operating permit for an indefinite period of time; the company is taking the necessary steps to obtain a new operating permit. To this end, on 27 May 2014, Nuclenor, S.A. presented the Ministry of Energy, Tourism and Digital Agency with the documentation required to renew the operating permit until 2031, and on 2 June 2014 the Ministry issued a request to the Nuclear Safety Council (CSN) for the mandatory report in approval of the renewal, which in turn sent Nuclenor, S.A. Complementary Technical Instruction ITC/14/01 on 30 July 2014, stipulating the documentation to be presented. On 30 December 2014, Nuclenor, S.A. presented most of this documentation to the Nuclear Safety Council, as it was considered that the Council could pronounce with regard to the documentation presented.

On 8 February 2017, the Nuclear Safety Council issued a statutory report on the renewal operating permit for the Santa María de Garoña plant to the Ministry of Energy, Tourism and Digital Agency. From this moment, the Ministry has a legal maximum period of 6 months to decide whether or not to authorise Nuclenor, S.A.'s operating permit request, presented on 27 May 2014. For its part, Nuclenor, S.A. is analysing the Nuclear Safety Council's conditions to evaluate the impact on the eventual operational restart at the Plant.

"Non-current provisions" under liabilities in the consolidated statement of financial position at 31 December 2016 and 2015 included the provision to cover the estimated higher costs to be incurred by the company given the extra time needed as a result of the situation explained in the previous paragraph.

Net profit/(loss) of companies accounted for using the equity method on the consolidated income statement in 2016 and 2015 includes a negative impact of Euros 38 million and Euros 58 million, respectively, arising from their holding in 50% of Nuclenor, S.A., arising from the recognition of such provision.

Remaining companies

The following information at 31 December 2016 and 2015 on the financial statements, in aggregate terms, for each of the associates or joint ventures, considered individually either non-material or of relative importance over which ENDESA has significant influence, which have served as a basis for the preparation of the Consolidated Financial Statements:

Million Euros

	Associates		Joint ventures	
	2016	2015	2016	2015
Profit/(loss) from continuing operations	3	(3)	52	45
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other comprehensive income	-	-	(1)	14
Total Comprehensive Income	3	(3)	51	59

The full list of investees over which ENDESA has significant influence is provided in Appendix II of these Consolidated Financial Statements. These companies do not have publicly listed share prices.

ENDESA did not have any significant contingent liabilities related to associates or joint ventures at 31 December 2016 and 2015.

10.2. Joint operation entities

The table below shows information at 31 December 2016 and 2015 taken from the financial statements of the main joint operation entities, used to prepare the accompanying Consolidated Financial Statements:

Million Euros

	Statement of Financial Position	
	Asociación Nuclear Ascó-Vandellos II, A.I.E.	
	31 December 2016	31 December 2015
Non-current Assets	123	88
Current assets	137	122
Cash and cash equivalents	-	-
Other current assets	137	122
Total assets	**260**	**210**
Equity	16	14
Non-current liabilities	131	104
Non-current financial debt	-	-
Other non-current liabilities	131	104
Current liabilities	113	92
Current financial debt	-	-
Other current liabilities	113	92
Total equity and liabilities	**260**	**210**

Million Euros

	Income Statement	
	Asociación Nuclear Ascó-Vandellos II, A.I.E.	
	2016	2015
Revenue	291	234
Depreciation and impairment losses	-	-
Financial Income	-	-
Financial Expense	(2)	(3)
Profit/(loss) before tax	**34**	**(30)**
Income tax expense	-	-
Profit/(loss) from continuing operations	**34**	**(30)**
Profit/(loss) after tax from discontinued operations	**-**	**-**
Other comprehensive income	**(32)**	**34**
Total Comprehensive Income	**2**	**4**

The breakdown of cash flows generated by joint operation entities in the years ended 31 December 2016 and 2015 is as follows:

Million Euros

	2016	2015
Net cash flows from operating activities	29	25
Net cash flows from investing activities	(29)	(25)
Net cash flows from financing activities	-	-

At 31 December 2016 and 2015, ENDESA had not incurred any significant contingent liabilities.

11. Inventories

Details of this item at 31 December 2016 and 2015 are as follows:

Million Euros

	31 December 2016	31 December 2015
Fuel stocks	738	762
Coal	243	278
Nuclear fuel	341	336
Fuel oil	72	71
Gas	82	77
Other inventories	182	125
Carbon dioxide emission allowances (CO_2)	293	379
Valuation adjustments	(11)	(4)
TOTAL	**1,202**	**1,262**

11.1. Carbon dioxide emission allowances (CO_2).

In 2016 and 2015, CO_2 emission allowances for 2015 and 2014 were cancelled, resulting in the derecognition of Euros 239 million and Euros 197 million, respectively (33.7 million tonnes and 31.3 million tonnes, respectively).

At 31 December 2016, the provision for allowances to be delivered to cover these (CO_2) emissions under current liabilities on the consolidated statement of financial position amounted to Euros 190 million (Euros 240 million at 31 December 2015) (see Note 23).

At 31 December 2016, future commitments to purchase CO_2 emission rights, CERs and ERUs amounted to Euros 56 million (Euros 67 million at 31 December 2015) in accordance with the agreed prices if all the projects are completed successfully.

During 2015, ENDESA availed itself of the exchange process set out in Articles 58-61 of Regulation (EU) No. 389/2013, exchanging 25 million tonnes of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) for the same amount of tonnes of European Union Allowances (EUAs). Subsequent to this exchange, on 17 December 2015, Euros 184 million in profit were earned from the forward sale related to European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs), recognised under Other operating income (see Note 24.2) on the 2015 consolidated income statement.

11.2. Commitments to acquire inventories

Fuel stock purchase commitments amounted to Euros 20,596 million at 31 December 2016 (Euros 26,411 million at 31 December 2015), of which a portion corresponds to agreements or have "take or pay" clauses.

At 31 December 2016, the breakdown of commitments to purchase commodities is the following:

Million Euros

	Future electricity purchase commitments at 31 December 2016				
	Nuclear fuel	**Fuel oil**	**Gas**	**Other**	**Total**
2017-2021	331	528	7,802	415	9,076
2022-2026	41	-	7,298	-	7,339
2027-2031	-	-	4,181	-	4,181
2032 – Other	-	-	-	-	-
TOTAL	**372**	**528**	**19,281**	**415**	**20,596**

The amount of commitments to acquire inventories at 31 December 2016 also includes the commitment to acquire gas under contracts arranged in 2014 with Corpus Christi Liquefaction, LLC, part of which are guaranteed by ENEL, S.p.A. (see Note 34.1.2).

At 31 December 2016 and 2015, no amounts were related to joint ventures.

The Company's directors consider that ENDESA will be able to fulfil these obligations and, therefore, they do not expect any contingency to arise in this respect.

11.3. Other information

At 31 December 2016 and 2015, ENDESA had not pledged material amounts of inventories to secure the repayment of debts.

ENDESA has taken out insurance policies to cover the risk of damage to its inventories. It considers that coverage provided by these policies is sufficient.

12. Trade and other receivables

Details of this item at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Financial instruments	18	**2,951**	**2,671**
Trade receivables for sales and services rendered		2,684	2,662
Electricity trade receivables		1,974	2,000
Gas trade receivables		203	248
Receivables from other transactions		483	386
Receivable from Group companies and associates	34.1.3 and 34.2	24	28
Non-financial derivatives	18.3	233	177
Non-financial derivatives related to third-party transactions		137	38
Non-financial derivatives from Group companies and associates	34.1.3	96	139
Other receivables		450	243
Other receivables from third parties		171	199
Other Group companies and associates	34.1.3	279	44
Valuation adjustments		(416)	(411)
Trade receivables for sales and services rendered		(385)	(407)
Other receivables		(31)	(4)
Tax assets		**501**	**306**
Current income tax		397	210
Value Added Tax (VAT) receivable		35	33
Other taxes		69	63
TOTAL		**3,452**	**2,977**

On 29 December 2016, through its wholly-owned investee ENDESA Servicios, S.L.U., ENDESA, S.A. and ENEL Iberoamérica, S.L.U. drew up a Contract for the Assignation of Systems and Telecommunications Business, whereby ENDESA, S.A. would purchase systems and telecommunications business within its sphere of activity from ENEL Iberoamérica, S.L.U. The effective date of the transaction will be 1 January 2017. The operation entailed reorganisation of systems and telecommunications support activities to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying internal procedures and administrative management. The stipulated purchase price was Euros 246 million, paid up on signature of the contract (29 December 2016) and, at 31 December 2016, it was recognised under “Other receivables from Group companies and associates”.

Balances included under this caption do not generally earn interest.

The average collection period for trade receivables was 32 days in 2016 and 31 days in 2015. Therefore, fair value does not differ significantly from carrying amount.

Factoring transactions were carried out in 2016 and 2015, whose undue balances at 31 December 2016 and 2015, amounted to Euros 488 million and Euros 503 million, respectively, which were derecognised from the consolidated statement of financial position. These transactions were recognised at a cost of Euros 25 million and 23 million, respectively, under Non-financial Derivatives on the consolidated income statement (see Note 30).

There are no significant restrictions on the availability of collection rights of this nature.

No one customer has balances payable to ENDESA that are significant with respect to ENDESA’s total revenues or accounts receivable.

The movement in valuation adjustments in 2016 and 2015 is as follows:

Million Euros

	Notes	2016	2015
Opening balance		**411**	**343**
Charges	18.4.1, 28 and 33.2	104	134
Applications		(99)	(99)
Transfers and other		-	33
Closing balance		**416**	**411**

Virtually all valuation adjustments relate to trade receivables for sales of electricity.

13. Cash and cash equivalents

Details of this item at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Cash in hand and at banks		418	344
Cash equivalents		-	2
TOTAL	18	**418**	**346**

Details at 31 December 2016 and 2015 by currency are as follows:

Million Euros

Currency	31 December 2016	31 December 2015
Euro	416	341
US dollar (USD)	1	3
Other currencies	1	2
TOTAL	**418**	**346**

Short-term cash investments mature within three months from contracting date and earn interest at market interest rates for this type of deposits.

There were no investments in sovereign debt at 31 December 2016 and 2015 and there are no restrictions for material amounts on the availability of cash and cash equivalents.

14. Equity

Details of ENDESA's equity at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Total equity of the Parent	14.1	**8,952**	**9,036**
Share capital	14.1.1	1,271	1,271
Share premium	14.1.2	89	89
Legal reserve	14.1.3	254	254
Revaluation reserve	14.1.4	404	404
Other reserves	14.1.5	106	106
Valuation adjustments		(38)	(120)
Translation differences		1	-
Unrealised valuation adjustments	14.1.6	(39)	(120)
Reserve for actuarial gains and losses	14.1.7	(757)	(584)
Retained earnings	14.1.8	8,364	8,040
Interim dividend	14.1.9	(741)	(424)
Total equity of non-controlling interests	14.2	**136**	**3**
TOTAL EQUITY		**9,088**	**9,039**

14.1. Equity: Parent

14.1.1. Share capital

At 31 December 2016 ENDESA had share capital of Euros 1,270,502,540.40, represented by 1,058,752,117 bearer shares with a par value of Euros 1.2 each, subscribed and fully paid up and all admitted for trading on the Spanish Stock Exchanges. There were no changes in share capital in 2016 and 2015.

At 31 December 2016 and 2015, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberoamérica, S.L.U. At that date no other shareholder held more than 10% of the share capital of ENDESA, S.A.

14.1.2. Share premium

The share premium arises from the Company's corporate restructuring. Article 303 of the consolidated text of the Corporate Enterprises Act expressly permits the use of the share premium to increase capital and does not establish any specific restrictions as to its use.

Nonetheless, at 31 December 2016, Euros 53 million of the share premium are restricted to the extent that they are subject to tax assets capitalised in prior years (Euros 55 million at 31 December 2015).

14.1.3. Legal reserve

In accordance with Article 274 of the consolidated text of the Corporate Enterprises Act, an amount equal to 10% of the profit for the year must be earmarked for the legal reserve until such reserve represents at least 20% of the capital.

The legal reserve can be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase. Except for the aforementioned purpose, the legal reserve may not be used to offset losses unless it exceeds 20% of the capital and no other sufficient reserves are available for such purpose.

At 31 December 2016 and 2015, the Parent held the minimum amount stipulated in law for this reserve.

14.1.4. Revaluation reserve

The revaluation reserve is a result of the revaluation of assets made pursuant to Royal Decree-Law 7/1996, of 7 June 1996.

On 1 January 2000, the revalued assets were contributed to the corresponding companies following the corporate restructuring carried out by ENDESA.

This balance can be used, tax-free, to offset the accounting loss for the year or accounting losses accumulated from prior years or that could arise in the future, and to increase share capital or unrestricted reserves, and in the latter case, monetary gain has been realised. The gain will be deemed to have been realised when the related revalued assets have been depreciated, transferred or derecognised.

This balance would be taxed if used for any purpose other than that foreseen in Royal Decree Law 7/1996 of 7 June 1996.

14.1.5. Other reserves

At 31 December 2016 and 2015, these mainly consist of the redeemed capital reserve in the amount of Euros 102 million, in compliance with Article 335 of Spain's Corporate Enterprises Act, which requires companies to post to this reserve an amount equal to the par value of the redeemed shares or of the reduction in their par value, when the reduction is charged to unrestricted profits or reserves by redeeming shares acquired free of charge by the Company. The drawdown on this reserve will be subject to the same requirements as set forth for reducing share capital.

14.1.6. Unrealised valuation adjustments

Details of changes in this reserve as a result of companies accounted for using the equity method, derivatives and financing transactions designated as cash flow hedges and of the amounts allocated to income are as follows:

Million Euros

	Notes	31 December 2015	Changes in the consolidation scope (Note 5)	Change in market value	Amount taken to income	Other transactions with shareholders or owners	31 December 2016
Cash flow hedges	18.3	(62)	-	126	(22)	-	42
Interest rate derivatives		(29)	-	-	-	-	(29)
Exchange rate derivatives		4	-	8	(3)	-	9
Commodities derivatives		(37)	-	118	(19)	-	62
Investments accounted for using the equity method		(51)	3	(5)	6	-	(47)
Other valuation adjustments		1	-	-	-	-	1
Tax effect		(8)	-	(32)	5	-	(35)
TOTAL		**(120)**	**3**	**89**	**(11)**	**-**	**(39)**

Million Euros

	Notes	31 December 2014	Changes in the consolidation scope	Change in market value	Amount taken to income	Other transactions with shareholders or owners	31 December 2015
Cash flow hedges	18.3	21	-	64	(147)	-	(62)
Interest rate derivatives		(29)	-	-	-	-	(29)
Exchange rate derivatives		34	-	51	(81)	-	4
Commodities derivatives		16	-	13	(66)	-	(37)
Investments accounted for using the equity method		(67)	-	1	15	-	(51)
Other valuation adjustments		1	-	-	-	-	1
Tax effect		(29)	-	(20)	41	-	(8)
TOTAL		**(74)**	**-**	**45**	**(91)**	**-**	**(120)**

14.1.7. Reserve for actuarial gains and losses

This reserve derives from actuarial gains and losses recognised in equity (see Note 16.1).

14.1.8. Retained earnings

Details of the Company's reserves at 31 December 2016 and 2015 are as follows.

Million Euros

	31 December 2016	31 December 2015
Voluntary reserves	703	703
Merger reserve	667	667
Other unrestricted reserves	36	36
Other retained earnings	7,661	7,337
TOTAL	**8,364**	**8,040**

The merger reserve stems from the restructuring of the Company, and its balance at 31 December 2016 amounts to Euros 667 million, Euros 110 million of which are undistributable because they are subject to certain tax benefits (Euros 667 million and Euros 117 million respectively at 31 December 2015).

14.1.9. Dividends

2016

At its meeting on 22 November 2016, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2016 profit of Euros 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2017. This interim dividend was recognised under the Parent Company's Equity at 31 December 2016.

2015

At its meeting on 21 December 2015, ENDESA S.A.'s Board of Directors agreed to pay its shareholders a gross interim dividend against 2015 profit of Euros 0.40 per share, which gave rise to a pay-out of Euros 424 million on 4 January 2016. This interim dividend was recognised under the Parent Company's equity at 31 December 2015.

Approval was given at ENDESA General Shareholders' Meeting of 26 April 2016 to pay shareholders a total dividend charged against 2015 profit of a gross Euros 1.026 per share (Euros 1,086 million). The difference between the total dividend approved by the shareholders and the interim dividend already paid, for a total pay-out of Euros 663 million (Euros 0.626 gross per share), was paid on 1 July 2016.

14.1.10. Gains and losses recognised in the consolidated statement of other comprehensive income

The composition at 31 December 2016 and 2015, and movements in relation to gains and losses recognised in the consolidated statement of other comprehensive income in 2016 and 2015, are as follows:

Million Euros

		31 December 2015			Changes in 2016					31 December 2016		
	Notes	Total	Of the Parent	Non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax effect	Changes in the consolidation scope (Note 5)	Other transactions with shareholders or owners	Total	Of the Parent	Non-controlling interests
Items that can be reclassified to profit or loss:		**(120)**	**(120)**	**-**	**121**	**(16)**	**(27)**	**3**	**-**	**(39)**	**(39)**	**-**
From measurement of financial instruments		-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets		-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)		-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	14.1.6	(70)	(70)	-	126	(22)	(27)	-	-	7	7	-
Companies accounted for using the equity method	14.1.6	(50)	(50)	-	(5)	6	-	3	-	(46)	(46)	-
Other income and expense recognised directly in equity		-	-	-	-	-	-	-	-	-	-	-
Items not to be reclassified to profit or loss in subsequent period:		**(584)**	**(584)**	**-**	**(221)**	**-**	**48**	**-**	**-**	**(757)**	**(757)**	**-**
Actuarial gains and losses and other adjustments	16.1	(584)	(584)	-	(221)	-	48	-	-	(757)	(757)	-
TOTAL		**(704)**	**(704)**	**-**	**(100)**	**(16)**	**21**	**3**	**-**	**(796)**	**(796)**	**-**

Million Euros

		31 December 2014			Changes in 2015					31 December 2015		
	Notes	Total	Of the Parent	Non-controlling interests	Income and expense recognised directly in equity	Amounts transferred to income statement and/or investments	Tax effect	Changes in the consolidation scope	Other transactions with shareholders or owners	Total	Of the Parent	Non-controlling interests
Items that can be reclassified to profit or loss:		**(75)**	**(75)**	**-**	**65**	**(132)**	**21**	**-**	**-**	**(120)**	**(120)**	**-**
From measurement of financial instruments		-	-	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets		-	-	-	-	-	-	-	-	-	-	-
Other income/(expenses)		-	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	14.1.6	(8)	(8)	-	64	(147)	21	-	-	(70)	(70)	-
Companies accounted for using the equity method	14.1.6	(67)	(67)	-	1	15	-	-	-	(50)	(50)	-
Other income and expense recognised directly in equity		-	-	-	-	-	-	-	-	-	-	-
Items not to be reclassified to profit or loss in subsequent period:		**(830)**	**(830)**	**-**	**319**	**-**	**(73)**	**-**	**-**	**(584)**	**(584)**	**-**
Actuarial gains and losses and other adjustments	16.1	(830)	(830)	-	319	-	(73)	-	-	(584)	(584)	-
TOTAL		**(905)**	**(905)**	**-**	**384**	**(132)**	**(52)**	**-**	**-**	**(704)**	**(704)**	**-**

14.1.11. 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.

The Parent Company's directors consider that an indicator of its ongoing financial position is its consolidated leverage ratio. Details of this ratio at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	Leverage ratio 31 December 2016	Leverage ratio 31 December 2015
Net financial debt		**4,938**	**4,323**
Non-current interest-bearing loans and borrowings	17.1	4,223	4,680
Current interest-bearing loans and borrowings	17.1	1,144	-
Cash and cash equivalents	13	(418)	(346)
Derivatives recognised as financial assets	18.3	(11)	(11)
Equity	**14**	**9,088**	**9,039**
Of the Parent		8,952	9,036
Of non-controlling interests		136	3
Financial leverage (%) (*)		**54.34**	**47.83**

(*) Leverage (%) = Net financial debt / equity

ENDESA uses principles of prudence that are similar to those applied until now in its financing structure by obtaining long-term financing that enables it to adjust its maturity schedule to its capacity to generate cash flow envisaged in the business plan. The Company also has short-term financing that helps optimise the management of its working capital requirements and improve the cost of its debt.

The stabilisation of electricity regulations, as well as a profitability-focused industrial plan, have allowed the Company to propose a dividend policy designed so that its shareholders earn the maximum possible return on their investment without compromising sustainability and the potential for long-term growth.

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.

On 27 July 2016, the takeover of ENEL Green Power España, S.L.U. (EGPE) took place through the acquisition of 60% of its share capital for a gross amount of Euros 1,207 million. This transaction was financed, mainly, through International ENDESA, B.V. through the issue of Euro Commercial Paper (ECP), the renewals of which are backed by irrevocable lines of bank credit in the amount of Euros 1,200 million (see Note 5).

In 2016, a total dividend was approved for distributed out of 2015 profit, amounting to Euros 1,086 million (Euros 424 million corresponding to the interim dividend of Euros 0.4 gross per share, paid on 4 January 2016, and Euros 663 million to the final dividend of Euros 0.626 gross poer share, paid on 1 July 2016) which had no negative impact on the net financial debt ratio of the Company's equity (see Note 14.1.9).

In 2015, a dividend was distributed against 2014 results for a total of Euros 805 million (Euros 0.76 gross per share), paid on 2 January 2015 (2014 interim dividend of Euros 0.38 gross per share) and 1 July 2015 (2014 final dividend of Euros 0.38 gross per share), respectively.

ENDESA's long-term ratings allocated by credit rating agencies at the respective dates of issue of the Consolidated Financial Statements for the years ended 31 December 2016 and 2015, reflecting investment grade levels, are as follows:

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

The Parent Company's directors consider that the rating assigned by the agencies would enable the Parent Company to tap the financial markets on reasonable terms if need be.

14.1.12. Restrictions on the availability of funds and pledges of shares of subsidiaries

At 31 December 2016, certain ENDESA subsidiaries that operate in the renewable energy business, and which are financed through project finance, contain clauses in their financing agreements that must be complied with before profits can be distributed to shareholders.

At 31 December 2016, financial debts subject to such restrictions amounted to Euros 178 million (no debt was affected by such restrictions at 31 December 2015) (see Notes 17.2 and 35.1).

14.2. Equity: Non-controlling interests

Following the acquisition of 60% of the share capital of ENEL Green Power España, S.L.U. (EGPE), thebalance of "Equity of non-controlling interests" increased in 2016 and, at 31 December 2016, it included mainly the non-controlling interests of investments held by ENEL Green Power España, S.L.U. (EGPE) amounting to Euros 133 million.

15. Deferred income

Movements in this heading on the consolidated statement of financial position in 2016 and 2015 are as follows:

Millions of Euros

	Notes	Grants related to assets	Facilities ceded from customers	Total
Balance at 31 December 2014		**353**	**4,259**	**4,612**
Additions		2	231	233
Amount taken to income		(19)	(148)	(167)
Other		1	-	1
Balance at 31 December 2015		**337**	**4,342**	**4,679**
Additions		2	191	193
Changes in consolidated group	5	12	-	12
Amount taken to income		(18)	(155)	(173)
Other		1	-	1
Balance at 31 December 2016		**334**	**4,378**	**4,712**

Capital grants includes mainly aid received under the partnership agreements entered into to improve the quality of supply in the electricity distribution network with, inter alia, the Ministry for Energy, Tourism and Digital Agency and with regional governments for the construction of electricity distribution facilities.

Facilities ceded from customers include mainly the valuation of distribution facilities ceded by customers and the income received from third parties other than official bodies, and income from extension and connection rights necessary to handle requests for new services, or to extend existing ones. It also includes hookup and extension rights related to new installation extensions which the distributor must make in accordance with requested voltage and power, within legally-established limits, which are necessary to allow for new supply and extensions to the existing grid. These are regulated up to and including 2000 by Royal Decree 2949/1982, of 15 October, since 2001 by Royal Decree 1955/2000, of 1 September, and since 2013, by Royal Decree 1048/2013, of 27 December.

16. Non-current provisions

The breakdown of non-current provisions on the accompanying consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Provisions for pensions and similar obligations	16.1	1,063	839
Provisions for workforce restructuring costs		948	876
Workforce reduction plans	16.2.1	160	204
Contract suspension	16.2.2	788	672
Other non-current provisions	16.3	1,707	1,690
TOTAL		**3,718**	**3,405**

16.1. Provisions for pensions and similar obligations

All employees of the ENDESA, S.A. companies are members of the Pension Plan, unless they expressly opt out.

With the signing of the first Framework Agreement on 25 October 2000, a defined contribution pension scheme was established for retirement, and a defined benefit scheme for death and incapacity.

A scheme involving combined contributions by the company and the employee was established, with a maximum 6% of the pensionable salary being borne by the Company and 3% of the same salary by the employee.

There are also employees covered by origin agreements predating the Framework Agreement:

- Defined contribution for retirement, and defined benefit for death and incapacity and with benefit and contribution systems differing from those described above, the situation varying depending on the origin.

- Defined benefit for retirement, death and incapacity, relating to two major collectives:

  - Electricity employees of the former ENDESA. This is now closed, for which the predetermined nature of the retirement benefit and the fact that it is fully underwritten means that there is no risk.

  - Fecsa/Enher/HidroEmpordá employees. A collective that is closed for which the benefit is linked to the consumer price index (CPC) and not underwritten, with the exception of benefits arising up to 31 December 2011, the date on which an insurance policy was taken out to cover these benefits, thereby eliminating any future obligation as regards this collective.

    For this collective, there is an internal fund as a provision together with the assets of the Plan covering the obligation in its entirety.

There are also certain social benefit obligations to employees during their retirement, relating mainly to supply of electricity. These obligations have not been externalised and are covered by the related in-house provisions.

ENDESA's pension plans are administered in accordance with the general restrictions to management and risk assumption in the respective legislations applicable in Spain.

At present, pension funds promoted by ENDESA companies undertake the specific risks inherent to the assets in which it has investments, which are mainly:

- Risks of investment in fixed-income assets arises from interest rate variations and the credit risk of the portfolio shares.

- Risks of investment in equities arises from the potential impact of volatility (changes) in the prices of the related assets, which is greater than that of fixed income.

- Risks of investment in derivative financial instruments arise in accordance with the degree of related leverage, making them especially vulnerable to changes in the prices of the underlying assets (benchmark asset).

- Investment in assets denominated in currencies other than the euro bear additional risk related to changes in exchange rates.

– Investments in non-tradable assets, made in less efficient markets with scant liquidity, pose measurement risks arising from the approaches used and the lack of market prices for comparison.

The assumptions used when calculating the actuarial liability in respect of uninsured defined benefit obligations at 31 December 2016 and 2015 were as follows:

	31 December 2016		
	Pensions	**Energy**	**Health insurance**
Interest rate	1.74%	1.75%	1.72%
Mortality tables	PERM / F2000	PERM / F2000	PERM / F2000
Expected return on plan assets	1.74%	N/A	N/A
Salary increase (*)	2.00%	2.00%	N/A
Increase in the cost of health care	N/A	N/A	3.20%

(*) Benchmark percentage for estimating salary increases.

	31 December 2015		
	Pensions	**Energy**	**Health insurance**
Interest rate	2.54%	2.56%	2.53%
Mortality tables	PERM / F2000	PERM / F2000	PERM / F2000
Expected return on plan assets	2.54%	N/A	N/A
Salary increase (*)	2.00%	2.00%	N/A
Increase in the cost of health care	N/A	N/A	3.20%

(*) Benchmark percentage for estimating salary increases.

The interest rate applied to discount the commitments is obtained from a curve constructed using the yields on corporate bond issues by companies with a "AA" credit rating and based on the estimated term over which the obligations deriving from each commitment will be settled..

Details of the balance included in the accompanying consolidated statement of financial position as a result of the difference between the actuarial liability relating to defined benefit obligations and the market value of plan assets are as follows:

Million Euros

	31 December 2016	31 December 2015
Actuarial liability	1,772	1,563
Plan assets	(709)	(724)
Difference	1,063	839
Shortfall recognised in respect of actuarial liability	**1,063**	**839**

A breakdown of net actuarial liabilities, gross and the changes in the market value of assets relating to defined benefit obligations at 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	At 31 December 2016				At 31 December 2016			
		Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total
Opening net actuarial liability		**131**	**695**	**13**	**839**	**220**	**906**	**14**	**1,140**
Net interest	29	3	18	-	21	4	19	1	24
Current service costs		8	4	-	12	11	6	-	17
Benefits paid in the period		-	-	-	-	-	-	-	-
Contributions for the year		(14)	(26)	(1)	(41)	(8)	(23)	(1)	(32)
Other changes		8	2	-	10	6	3	-	9
Actuarial (gains) losses arising from changes in demographic assumptions		-	-	-	-	-	-	-	-
Actuarial (gains) losses arising from changes in financial assumptions		112	97	2	211	(69)	(65)	(1)	(135)
Actuarial (gains) losses arising from experience adjustments		(17)	22	-	5	(29)	(151)	-	(180)
Actuarial return on plan assets excluding interest expense		5	-	-	5	(4)	-	-	(4)
Changes in asset ceiling		-	-	-	-	-	-	-	-
Changes in consolidated group	5	-	1	-	1	-	-	-	-
Closing net actuarial liability		**236**	**813**	**14**	**1,063**	**131**	**695**	**13**	**839**

Million Euros

	Notes	At 31 December 2016				At 31 December 2016			
		Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total
Opening actuarial liability		**855**	**695**	**13**	**1,563**	**955**	**906**	**14**	**1,875**
Financial expenses		21	18	-	39	19	19	1	39
Current service costs		8	4	-	12	11	6	-	17
Benefits paid in the period		(44)	(26)	(1)	(71)	(38)	(23)	(1)	(62)
Other changes		8	2	-	10	6	3	-	9
Actuarial (gains) losses arising from changes in demographic assumptions		-	-	-	-	-	-	-	-
Actuarial (gains) losses arising from changes in financial assumptions		112	97	2	211	(69)	(65)	(1)	(135)
Actuarial (gains) losses arising from experience adjustments		(17)	22	-	5	(29)	(151)	-	(180)
Changes in consolidated group	5	2	1	-	3	-	-	-	-
Closing actuarial liability		**945**	**813**	**14**	**1,772**	**855**	**695**	**13**	**1,563**

Million Euros

	Notes	2016				2015			
		Pensions	Energy	Health insurance	Total	Pensions	Energy	Health insurance	Total
Opening market value of the assets affected		**724**	**-**	**-**	**724**	**735**	**-**	**-**	**735**
Expected return		18	-	-	18	15	-	-	15
Contributions for the year		14	26	1	41	8	23	1	32
Benefits paid in the period		(44)	(26)	(1)	(71)	(38)	(23)	(1)	(62)
Actuarial gains (losses)		(5)	-	-	(5)	4	-	-	4
Changes in consolidated group	5	2	-	-	2	-	-	-	-
Closing market value of the assets affected		**709**	**-**	**-**	**709**	**724**	**-**	**-**	**724**

The main categories of defined benefit plan assets as a percentage of total assets, at 31 December 2016 and 2015, were as follows:

	Percentage (%)	
	31 December 2016	31 December 2015
Fixed-income assets	64	68
Shares	30	25
Investment property and other	6	7
TOTAL	**100**	**100**

The breakdown of the fair value of fixed-income assets, by geographical area, is as follows:

Million Euros

Country	31 December 2016	31 December 2015
Spain	178	220
Italy	72	82
France	35	36
UK	25	22
US	20	19
Germany	17	16
Holland	15	14
Brazil	-	3
Luxembourg	18	4
Belgium	3	4
Other	71	72
TOTAL	**454**	**492**

At 31 December 2016 and 2015, the value of defined benefit plan assets placed in sovereign debt instruments is as follows:

Million Euros

Country	31 December 2016	31 December 2015
Spain	123	161
Italy	39	46
France	2	7
Germany	1	5
Belgium	8	1
Holland	1	1
Brazil	-	-
Other	10	15
TOTAL	**184**	**236**

Defined benefit plan assets at 31 December 2016 include the ENEL Group companies' shares and bonds in the amount of Euros 22 million (Euros 22 million at 31 December 2015).

Shares and fixed-income instruments have quoted prices in active markets. The expected return on plan assets was estimated taking into account forecasts for the main fixed income and equity markets and assuming that the various asset classes would have similar weights to those of the preceding year. The average return rate in 2016 was 3.72% (3.48% in 2015).

Currently, the investment strategy and risk management are the same for all plan participants, with no correlation strategy between assets and liabilities.

At 31 December 2016, the weighted average duration, calculated based on probable flows of the obligation, was 16.9 years (16.9 years at 31 December 2015), and the calendar for payments of defined benefit obligations is as follows:

Million Euros

	31 December 2016	31 December 2015
Year 1	52	40
Year 2	57	45
Year 3	57	51
Year 4	62	55
Year 5	64	59
From Year 5	2,145	1,870
TOTAL	**2,437**	**2,120**

The classifications of defined benefit plan assets measured at fair value by fair value hierarchy at December 2016 and 2015 are as follows:

Million Euros

	31 December 2016			
	Fair value	Level 1	Level 2	Level 3
Defined benefit plan assets	709	627	69	13

Million Euros

	31 December 2015			
	Fair value	Level 1	Level 2	Level 3
Defined benefit plan assets	724	696	20	8

The valuation of assets classified as Level 3 is determined based on valuation reports prepared by the corresponding management company.

Amounts recognised on the consolidated income statement for defined benefit pension obligations are as follows:

Million Euros

	Notes	2016	2015
Current cost during the year	26	(12)	(17)
Net finance costs	29	(21)	(24)
TOTAL		**(33)**	**(41)**

The current cost allocated to the consolidated income statement included Euros 7 million in 2016 (Euros 6 million in 2015) (see Note 26) of the current cost relating to employees who opted to take early retirement, which had been recognised previously under provisions for workforce restructuring costs and transferred during the year to pension obligations.

Amounts recognised on the statement of other consolidated income for defined benefit pension obligations are as follows:

Million Euros

	2016	2015
Expected return on plan assets	(5)	4
Actuarial gains and losses	(216)	315
Change in the limit to surplus due to adoption of IFRIC 14 and paragraph 57 (b) of IAS 19	-	-
TOTAL	**(221)**	**319**

Contributions to defined contribution plans are recognised under employee benefits expense on the consolidated income statement. Euros 44 million and Euros 31 million were recognised in this connection in 2016 and 2015, respectively (see Note 26). In addition, Euros 31 million were contributed in both 2016 and 2015, respectively, which had been previously included under provisions for workforce restructuring costs.

Based on the best estimate available, forecast contributions to defined benefit plans in 2017 amount to approximately Euros 12 million.

At 31 December 2016 and 2015, the sensitivity of the value of the actuarial liability for pensions to fluctuations in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Million Euros

Assumption	31 December 2016			31 December 2015		
	Pensions	Energy	Assistance health insurance	Pensions	Energy	Health insurance
50 b.p. decrease in the interest rate	84	75	1	70	59	1
50 b.p. increase in the interest rate	(74)	(66)	(1)	(63)	(52)	(1)
50 b.p. decrease in the Consumer Price Index (CPI) (*)	(16)	(65)	(1)	(14)	(52)	(1)
50 b.p. increase in the Consumer Price Index (CPI) (*)	16	74	1	15	58	1
1% increase in healthcare costs	N/A	N/A	3	N/A	N/A	(2)
1 year increase in the life expectancy of working and retired employees	27	33	1	20	25	1

(*) Benchmark percentage for estimating salary increases.

16.2. Provisions for workforce restructuring costs

Provisions for the various workforce restructuring plans included in the consolidated statement of financial position are the result of individual or collective agreements with ENDESA's employees, whereby the Company undertakes to furnish a future consideration in the event of termination of employment or suspension of the employment arrangement by agreement between the parties.

16.2.1. Workforce reduction plans

At 31 December 2016, there were mainly 4 types of plans in force:

- Personnel restructuring plans approved by the former companies before the corporate restructuring process in 1999. The deadline for employees to adhere to these restructuring plans has passed and the obligation therefore mainly relates to employees who have left the Company. A total of 383 employees were considered in the valuation of this scheme (607 employees at 31 December 2015).

- Voluntary redundancy scheme approved in 2000. The scheme applies to employees with at least ten years of service in the group of companies concerned at 31 December 2005. Employees aged 50 or over at 31 December 2005 are entitled to early retirement at the age of 60. They may sign up to the scheme between the ages of 50 and 60, provided that there is an agreement between the employee and the company concerned. A total of 435 employees were considered in the valuation of this scheme, all of whom have taken early retirement (1,122 employees, all of whom had taken early retirement, at 31 December 2015). For the scheme to apply to employees younger than 50 at 31 December 2005, a written request from the employee and the acceptance thereof by the company are required. Employees under the age of 50 who have signed up to the voluntary redundancy scheme receive a termination benefit of 45 days' salary per year of service plus an additional amount of one or two annual salary payments depending on the age of the employee in question at 31 December 2005.

- Mining plans for 2006-2012 Employees are entitled to opt for inclusion in the plans on reaching 52 years of age (physically or equivalent) in 2006-2012, provided that at that date they have at least three years of service and eight years in a position with a reduction coefficient. Employees can be included in the plans by mutual agreement between the employee and the company. A total of 866 employees were considered in the valuation of this scheme, all of whom have taken early retirement (877 employees, all of whom had taken early retirement, at 31 December 2015). The economic conditions applicable to the employees who have signed up to these early retirement schemes are as follows:

    - The Company will pay the employee from the date of termination of their contract until the first date on which retirement can be taken after unemployment benefit contributions have ceased and, at most, until the employee's right is vested on reaching retirement age, a termination benefit based on their last annual salary and subject to review in line with the CPI.

    - Any unemployment benefits and any other official early retirement benefits received prior to the retirement date will be deducted from the resulting amounts.

- Mining plan for 2016: the group of employees affected by the contract termination agreement (total group considered in the assessment of 70 people, of which 47 people have currently taken early retirement), is guaranteed from the moment their contract is terminated until the legal age of retirement to complete their gross ordinary remuneration up to 80%. In this period, they are entitled to receive the bonus for length of service, study aid and the accident and life insurance, and also to receive contributions to the supplementary prevision plan relating to the group to which the employee belongs.

Movement in provisions for work force reductions in 2016 and 2015 is as follows:

Million Euros

	Notes	2016	2015
Opening balance		**204**	**386**
Amounts charged to the income statement		**27**	**(30)**
Personnel expenses	26	2	(35)
Finance income and costs	29	25	5
Transfers to current and other		**(72)**	**(152)**
Changes in consolidated group	5	**1**	**-**
Closing balance		**160**	**204**

Current provisions in the accompanying consolidated statement of financial position at 31 December 2016 also include Euros 124 million of provisions for work force reductions which will foreseeably be paid in 2017 (Euros 194 million of the payments expected in 2016 at 31 December 2015) (see Note 23).

The assumptions used in the actuarial calculation of the obligations arising under these collective redundancy procedures are as follows:

	31 December 2016	31 December 2015
Interest rate	0.64%	1.17%
CPI	2.00%	2.00%
Mortality tables	PERM/F 2000	PERM/F 2000

At 31 December 2016 and 2015, the sensitivity of the value of the actuarial liability for restructuring plans to fluctuations of 50 basis points in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Million Euros

Assumption	**31 December 2016**		**31 December 2015**	
	50bp increase	**50bp decrease**	**50bp increase**	**50bp decrease**
Interest rate	(11)	12	(12)	13
CPI (*)	3	(3)	4	(4)

(*) Benchmark percentage for estimating salary increases.

16.2.2. Agreement on voluntary suspension or termination of employment contracts 2013-2018

On 3 December 2013, ENDESA and employee representatives signed an “Agreement on voluntary suspension or termination of employment contracts in 2013-2018 on the framework agreement of guarantees for ENDESA, S.A. and its electricity subsidiaries”, which was registered in a resolution by the Department of Employment of 29 December 2013, published in the Official State Gazette (BOE) on 24 January 2014, which will apply to employees affected by any reorganisation processes that may be carried out during this period.

This Agreement focuses on two groups and contemplates the following measures for each of them, and the mutual agreement of the company and the employee will be essential for them to be applied:

– For employees under 50 years old, it contemplates the possibility of the company allowing the employee to terminate the employment contract with payment of compensation.

– For employees over 50 years old, it contemplates the possibility of the company allowing the employee to suspend the employment contract for one year, in exchange for regular income during the suspension period. The suspension may be renewed for annual periods up to the ordinary date of retirement of the employee, provided neither the employee nor the company request the reinstatement of the employee.

As a result of the restructuring and reorganisation plan initiated by ENDESA, S.A., the Company has signed successive agreements with employee trade union representatives with an undertaking not to exercise the right to request reinstatement at the company in successive annual renewals of agreements to suspend employment contracts entered into or committed at 31 December 2016.

At 31 December 2016, there were 1,252 employees with a suspended contract pursuant to these Agreements, and the Company acquired a commitment to offer suspension of the employment contract to a further 151 employees, of which 46 had already signed the suspension agreement at the date of these Consolidated Financial Statements (688 employees with a suspended contract and 397 with a suspension commitment at 31 December 2015).

The provisions made at 31 December 2016 to cover the obligations of this item totalled Euros 878 million, of which Euros 788 million were recognised as non-current provisions for workforce restructuring plans, and Euros 90 million as current provisions for workforce restructuring plans (see Note 23) (Euros 672 million and Euros 38 million, respectively at 31 December 2015) covering all the contract suspension agreements signed with employees or undertaken with employee representatives prior to 31 December 2016. The provisions covered the total cost to be assumed by the Company during the period for which, in accordance with the commitments acquired up to 31 December 2016, the Company cannot prevent the employment contract from being suspended.

The movement in this non-current provision in 2016 and 2015 is as follows.

Million Euros

	Notes	2016	2015
Opening balance		**672**	**334**
Amounts charged to the income statement		**237**	**393**
Personnel expenses	26	207	391
Finance income and costs	29	30	2
Applications		**(121)**	**(55)**
Transfers and other		(121)	(55)
Changes in consolidated group	5	-	-
Closing balance		**788**	**672**

The assumptions used in the actuarial calculation of the obligations from the contract suspension agreement are as follows:

	2016	2015
Interest rate	0,0064	1.17%
Future increase in guarantee	2.00%	2.00%
Increase in other items	2.00%	2.00%
Mortality tables	PERM / F2000	PERM / F2000

At 31 December 2016 and 2015, the sensitivity of the value of the actuarial liability for terminating contracts to fluctuations of 50 basis points in the main actuarial assumptions, with the other variables remaining constant, is as follows:

Million Euros

Assumption	31 December 2016		31 December 2015	
	50bp increase	50bp decrease	50bp increase	50bp decrease
Interest rate	(18)	19	(19)	20
Guarantee and remaining items	16	(15)	18	(17)

16.3. Other provisions

The movement and composition of this heading in the consolidated statement of financial position in 2016 and 2015 are as follows:

Million Euros

	Notes	Provisions for litigation, termination benefits and other legal or contractual obligations	Provisions for decommissioning costs	Total
Balance at 31 December 2015		**755**	**935**	**1,690**
Net provisions charged to profit for the year		(12)	4	(8)
Operating expenses		(19)	(4)	(23)
Finance income and costs	29	7	8	15
Net provisions charged to property, plant and equipment	6	-	66	66
Payments		(59)	(16)	(75)
Transfers and other		11	(30)	(19)
Changes in consolidated group	5	37	16	53
Balance at 31 December 2016		**732**	**975**	**1,707**

Million Euros

	Notes	Provisions for litigation, termination benefits and other legal or contractual obligations	Provisions for decommissioning costs	Total
Balance at 31 December 2014		**735**	**996**	**1,731**
Net provisions charged to profit for the year		45	(13)	32
Operating expenses		41	(24)	17
Finance income and costs	29	4	11	15
Net provisions charged to property, plant and equipment	6	-	(11)	(11)
Payments		(53)	(17)	(70)
Transfers and other		28	(20)	8
Balance at 31 December 2015		**755**	**935**	**1,690**

The detail of provisions for decommissioning costs by type of plant are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Nuclear power plants	3a and 6	567	529
Other plants		299	254
Dismantling of meters		74	73
Decommissioning of mines		35	79
TOTAL		**975**	**935**

Litigation and arbitration

At the date of authorisation for issue of these Consolidated Financial Statements, the main litigation and arbitration proceedings involving ENDESA companies were as follows:

– Two distinct legal actions are ongoing against ENDESA Distribución Eléctrica, S.L.U. in respect of forest fires in Catalonia. These actions could give rise to an obligation to settle miscellaneous claims for damages of a combined value of approximately Euros 23 million.

– On 8 May 2008, a decision was made on the motion filed by ENDESA, S.A. at the Spanish Supreme Court to quash a ruling by the Spanish High Court rendering null and void the Order of 29 October 2002 regulating the competition transition costs (CTC) for 2001, passed in the appeal for judicial review no. 825/2002 filed by Iberdrola, S.A. The Supreme Court dismissed ENDESA, S.A.'s motion to quash the ruling from the High Court. Implementation of this decision is not expected to have any material economic effect for ENDESA, S.A., among other reasons because the ruling did not mention any possible amounts of competition transition costs, but merely stated that, in view of the total amount of book capital gains obtained by ENDESA, S.A. from the sale of Electra de Viesgo, S.L., there would be some capital gains in relation to the competition transition costs, but neither this ruling nor the Supreme Court appeal ruling stated any amount on which calculation of the potential impact on ENDESA, S.A. could be based.

– On 11 May 2009, the Ministry for Energy, Tourism and Digital Agenda issued an order imposing four distinct fines, to a combined value of Euros 15 million, on ENDESA Generación, S.A.U. as the operator of the nuclear plant Ascó I, in connection with a radioactive particle leak in December 2007, on the basis that the company had committed four serious violations contrary to the Nuclear Energy Law 25/1964, of 29 April. On 1 December 2009, granting a motion by ENDESA, the Spanish High Court stayed execution of the decision under challenge. ENDESA paid into court a bank guarantee covering the value of the fine

(Euros 15 million). At the date of preparation of this Consolidated Statements, the appeal is suspended, on 6 April 2011, the Spanish High Court suspended the appeal proceedings for as long as the decision on the same criminal proceedings 111/2011 remained pending at the Court of First Instance no. 1 in Gandesa (Tarragona). An Order dated 13 June 2016 enforced the continued suspension of the case until a final decision was handed down on the criminal proceedings. In addition, the Director General of Energy Policy and Mines imposed two fines of a combined value of Euros 90 thousand for minor infringements relating to the same incidents. These fines were contested in administrative proceedings, and later in judicial review and with respect to which a) on the Euros 15 thousand, appealed against before the Central Judicial Review Court, a Judgement was handed down on 3 July 2012, dismissing the appeal and paying the penalty and b) the penalty of Euros 75 thousand was appealed against before the Madrid High Court of Justice, judicial review number 189/2010, and the procedure was suspended by the Order of 16 July 2012, due to the existing criminal proceedings, which continue in 2017. With regard to such criminal case, the Court of Gandesa (Tarragona) handed down an Order dated 21 October 2015, whereby it agreed to dismiss the case. The above Order was appealed by the prosecution and other claimants. Under an Order dated 25 October 2016, the appeals were partially upheld, revoking the dismissal agreed with respect to Rafael Gasca, Francisco José Gonzalez Tardiu and Jordi Sabartes. An appeal was filed by Asociación Nuclear Ascó Vandellós II, A.I.E. and the defence of those investigated, continuing with the criminal case under way, hence the judicial review procedures continue to be suspended.

- On 22 February 2012, the former CNMC notified ENDESA Distribución Eléctrica, S.L.U. of its decision to impose a penalty of Euros 23 million for alleged unlawful conduct in the electricity facility market, by tendering offers for non-reserved facilities while informing the supply applicant of the technical and economic terms of its application (ENDESA/Fenie case). On 26 April 2012, the competent Spanish authority imposed a fine of Euros 1 million for a similar case limited to the geographical area of Mallorca (ENDESA/Asinem case). ENDESA Distribución Eléctrica, S.L.U. appealed against the two penalties before the National Appellate Court, which suspended the payment of fines under Orders of 21 May and 3 July 2012. In relation to the first case (ENDESA/Fenie), the National Appellate Court dismissed the judicial review appeal filed against the fine imposed on ENDESA Distribución Eléctrica, S.L.U., amounting to Euros 23 million. An appeal for judicial review against this ruling was also lodged with the Supreme Court. The Supreme Court accepted the appeal, and the case is pending a ruling. As regards the second item (ENDESA/Asinem), the High Court partially admitted the appeal filed by ENDESA Distribución Eléctrica, S.L.U., ordering the competent authorities to reduce the fine. The authorities submitted an appeal against the ruling. The Supreme Court handed down a sentence on 27 February, 2015, partially admitting the appeal filed by the authorities, and confirming the nullity of the fine ruling, since according to the Supreme Court, the fine was set "based on a calculation method with no legal grounds." Therefore, the Supreme Court ordered the CNMC to recalculate the fine, in accordance with its interpretation of Articles 63 and 64 of Law 15/2007, of July 3 on antitrust disputes. The case is currently in the judgement enforcement phase.

- On 23 May 2013, the Director General of Energy Policy and Mines agreed to launch infringement proceedings against ENDESA Generación, S.A.U. and Iberdrola Generación, S.A.U., as operators of the Ascó I and Ascó II nuclear power plants, with respect to the loss of traceability in the control of unused radioactive sources from the plant, for serious breach of Article 86.b).3 of Law 25/1964, of 29 April, on Nuclear Energy, for non-compliance with section 3.1.2. on “Plant management approaches" of the Radioactive Waste and Spent Fuel Management Plan (PGRR in Spanish), and breach of Section 10.5 of the Radiation Safety Manual (MPR) regarding radioactive sources, due to failure in the alleged loss of the related information. As this involves a nuclear power plant, in accordance with Article 89.1 of Law 25/1964 of 29 April on Nuclear Energy, violations qualifying as serious can entail fines of between Euros 0.3, in the lowest degree, and Euros 9 million, in the highest. On 10 June 2013, ENDESA Generación, S.A.U. submitted its pleas, requesting that the case be dismissed as the traceability of the sources had been recovered, or alternatively if rejected, that once the recovery of the traceability of the sources is accredited, to lower the category of infraction to minor. A ruling by the Ministry of Energy, Tourism and Digital Agency of 29 January 2014 imposed a joint and several fine of Euros 1 million on ENDESA Generación, S.A.U. and on Iberdrola Generación, S.A.U. for loss of traceability in the control of radioactive sources, a breach considered to be serious in the lowest degree. ENDESA Generación, S.A.U. paid its portion of the fine in the assigned amount. This decision was appealed against before the National Appellate Court on 4 April 2014. A ruling handed down on 27 March 2015 declared the appeal concluded, with the proceedings currently awaiting a date for a ruling. On 23 December 2016, the notice of opposition of the Public Prosecutor's Office was transferred to the Appeal. The Provincial Court of Tarragona is being summoned, and a date for voting and judgment of the appeal has been indicated on 13 February 2017. At the date of preparation of these Consolidated Annual Accounts no notification has been received.

- In 2013 the Court of First Instance No. 4 of Algeciras (Cádiz) accepted for processing the lawsuit filed by Obras y Construcciones Alcalá Sur, S.L. against ENDESA Distribución Eléctrica, S.L.U. seeking payment to Obras y Construcciones Alcalá Sur, S.L. of an indemnity of Euros 61 million in damages for breach of an agreement signed on 16 January 2006 between the companies. Specifically, the lawsuit is over failure by ENDESA Distribución Eléctrica, S.L.U. to build a substation for the supply of power to the more than 450 residential units owned by the plaintiffs, which prevented the completed development from obtaining occupancy permits. ENDESA Distribución Eléctrica, S.L.U. considers that there is no basis for the claim, since there is no contractual breach and no causal link between ENDESA Distribución Eléctrica, S.L.U.'s actions or omissions and the lack of available land to build the substation, or the delay in the construction of the substation and the delay in obtaining the occupancy permit for the residences. The preliminary hearing set for 22 June 2015 was suspended by the Court, and rescheduled for 29 March 2016. On 29 March 2016, a preliminary hearing was held which scheduled a two-trial session which would take place on 9 and 10 January 2017. The judgement of the trial of 9 January 2017 was suspended due to the failure to summons the expert witness of the opposing party and for non-compliance with the documents sent to Barrios Municipal Council and to the Ministry for Development, with the trial being re-scheduled for 16 February 2017. At the date of preparation of these Consolidated Financial Statements, no notice of any ruling resulting from the trial that was held has been received.

- On 22 January 2014, the President of the Ebro Hydrographic Federation (CHE) issued a resolution requiring ENDESA Generación, S.A.U. to deliver 25% of the power produced at the hydroelectric plants in the Noguera Ribagorzana basin and at the Mequineza and Ribarroja plants along the Ebro river, with effect from 1 January 2012, and approving settlements of Euros 28 million due to the impossibility of enforcing the obligation *in natura* as equivalent compensation for the period from 1 January 2012 to 30 September 2013. On 6 June 2014, the CHE required additional payment of Euros 2 million in alternative compensation for the period between 1 October 2013 and 17 December 2013. The CHE's resolution was predicated on article 10 of the 1946 Decree granting the Ribagorzana reserve to the National Institute of Industry, which was subsequently supported by the Decree granting Empresa Nacional Hidroeléctrica Ribagorzana S.A. the reserve of the middle section of the Ebro river between the Escatrón and Flix plants. ENDESA Generación, S.A.U. filed an appeal for judicial review with Section 2 of the Regional Appeal Court of Aragon.

- The Third Additional Provision of Law 12/2011 of 27 May 2011, governing civil liability for nuclear damage or damage caused by radioactive materials introduces an amendment to Nuclear Energy Law 25/1964, of 29 April, on Nuclear Energy. The amendment contemplates changes in the ownership of operating permits of nuclear plants, establishing that the permit holder or operator of a nuclear power plant must be a single body corporate responsible for the entire facility. The period of one year was established for the adaptation, subject to the presentation of the related adaptation plan, in the cases of ownership of permits for the operation of nuclear plants that do not meet the conditions required. Although on 28 September 2011, ENDESA Generación, S.A.U. properly presented the required plan within the stipulated deadline, the Department of Energy Policy and Mines considered that it did not meet the requirements. The co-owners were asked to prepare an adaptation plan for each of the power plants signed by both. On 25 June 2012, the Ministry of Energy, Tourism and Digital Agency launched disciplinary proceedings against the companies owning the Ascó I, Ascó II, Vandellos II, and Almaraz I and II nuclear plants, based on serious breaches with a possible fine of between Euros 0.3 million and 9 million. The companies filed pleas, and on 14 March 2013, Ministerial Orders were issued declaring that the companies did not comply with adaptation requirements, representing the commission of a serious offence with a file of Euros 0.9 million per reactor. ENDESA Generación, S.A.U. appealed the fines set by the High Court, and while the appeals were under consideration, they were temporarily suspended thanks to a deposit made in the amount of Euros 3.6 million. The High Court ruled against the appeal on 25 June 2014, thereby filing an appeal with the Supreme Court on 8 July 2014, by judgment of the Supreme Court of 8 February 2017, the appeal of ENDESA Generación, S.A.U., is dismissed, condemning it to the payment of the fine.

- On 15 and 16 April 2014, notification of four resolutions from the Directorate General of Energy Policy and Mines, all dated 10 April 2014, were received. The resolutions brought infringement proceedings against ENDESA Generación, S.A.U. as owner or co-owner of the Almaraz Units I and II, Ascó I and Ascó II and Vandellós nuclear power plants for the alleged, continuous breach of the sole transitional provision of Law 25/1964, of 29 April, on Nuclear Power, with a penalty for a serious breach of Euros 0.3 million up to Euros 9 million for each case filed, specifically considering that the Adaptation Plan submitted was not the "appropriate adaptation plan" referred to in the sole transitional provision of Law 25/1964, of 29 April, on Nuclear Power, since it did not take place within the time frame stipulated in this provision. On 25 September 2014, Ministerial Orders were issued which conclude the disciplinary proceedings which contemplate a Euros 3 million fine each. ENDESA Generación, S.A.U., appealed the 4 resolutions handed down in a joint infringement proceeding before the High Court. After requesting the temporary suspension of the fines, the National Appellate Court accepted the measure on 9 July 2015 after the Euros 9 million guarantee was presented. The procedure was declared to have been concluded on 6 July 2016, pending the handing down of a Judgement.

- On 17 July 2014, a resolution issued by the Competition Chamber of the CNMC was received proposing a fine on ENDESA Distribución Eléctrica, S.L.U. of Euros 1 million for alleged abuse of its dominant position entailing wrongful receipt of payment for execution of network extension installations for charging an uncontrolled price for the network extension which, according to the CNMC's interpretations of regulations, should be charged according to a scale. On the contrary, ENDESA Distribución Eléctrica, S.L.U. considers that it applied industry regulations correctly according to numerous judgements handed down which it presented during the process. ENDESA Distribución Eléctrica, S.L.U. appealed this ruling before the High Court on the grounds that it was contrary to the law, and requested temporary suspension of the fine. The High Court temporarily suspended the fine, and the proceedings are still ongoing.

- On 13 April 2015, ENDESA Generación, S.A.U. was notified of the settlements issued by the Guadalquivir Hydrographic Federation (CHG) regarding reserve power for electricity generation at the Tranco de Beas, Guadalmellato, Guadalen, Bembezar, Iznajar, Guadalmena, Doña Aldonza and Pedro Marín hydroelectric plants in the second half of 2009 and in the years from 2010 to 2013, for Euros 11 million. Euro 3 million were subsequently notified for 2014. Previously, in December 2014 and January 2015, ENDESA Generación, S.A.U. had received settlements for levies for output of these plants for Euros 3 million for 2011 and 2012, Euros 2 million for 2013 and, subsequently, Euros 1 million for 2014. ENDESA Generación, S.A.U. filed an appeal against all these settlements with the Andalusia Economic-Administrative Court, requesting suspension of payment, which was granted.

- In relation to the Extremadura Eco-tax, an appeal has been lodged against the settlement claimed for 2006-2016 under the Government of Extremadura's Law 8/2005, on Taxation of Facilities Affecting the Environment in the Autonomous Community of Extremadura. The appeal argues that this is unconstitutional, and that one of the key elements required for the tax is absent. With regard to the former, on 16 February 2015, the Constitutional Court, in a lawsuit lodged by Gas Natural Fenosa similar to ENDESA Generación, S.A.U.'s declared the tax to be unconstitutional. On 11 June 2015, the Supreme Court accepted the appeal filed for 2006. On 29 January 2016, the Regional Appeal Court of Extremadura handed down a favourable Judgement for 2007, which is now definitive. On 23 June 2016, the Regional Appeal Court of Extremadura received notification of a favourable sentence for 2008, which is now definitive. At 23 December 2016, notification was received of the Judgement for 2009, in which the Regional Appeal Court of Extremadura dismissed the cassation appeal filed by Extremadura Council, upholding ENDESA Generación, S.A.'s claims to cancel settlement of that year. On 3 November 2015, the Supreme Court examined another question of unconstitutionality regarding Iberdrola, S.A.'s 2012 Ecotax. The amount paid by ENDESA Generación, S.A.U. for this tax between 2006 and 2016 was Euros 218 million, to which it would be necessary to add the corresponding late-payment interest. The collection rights relating to 2006 and 2007 were cancelled due to offset against the 2016 tax payment, and the collection rights relating to 2008 and 2009 had not yet been refunded.

- On 11 January 2016, a lawsuit was received in which the Andalusia regional government claimed an indemnity from ENDESA Distribución Eléctrica, S.L.U. related to damages arising from a fire which was allegedly started by a line located in Paraje Gatuna en Alhama de Almería, which caused the destruction of 3,259 hectares of public and private land considered a danger zone. Euros 35 million were demanded for expenses related to fire extinguishing, environmental damages, and losses arising from burnt products. The counterclaim was presented on 5 February 2016. The preliminary hearing scheduled for 19 September 2016 was suspended and re-scheduled for 6 March 2017.

- ENDESA Generación, S.A.U. also filed an appeal before the High Court of Catalonia against Decree 178/2015, of 4 August 2015, approving the Regulation on the tax on the production of nuclear-based electrical power, issued to implement Law 12/2014, of 10 October, of the Parliament of Catalonia, approving this tax. In 2016, pursuant to a ruling handed down by the Constitutional Court on 20 April 2016, in which the court declared the unconstitutionality of such tax, ENDESA collected Euros 58 million for the settlements appealed for 2014-2016.

- In 2015, the tax authorities notified the agreement for the commencement of review procedures at ENEL Green Power España S.L.U. (EGPE) in relation to (i) Corporate Income Tax (Individual and Group Fiscal), for 2010 to 2013, VAT (May 2011 to December 2013), and Personal Income Tax (IRPF) withholdings from employees, professional services, dividends and interest, income obtained from non-residents (from May 2011 to December 2013), and on the third instalment payment of the Tax Group for 2015. It also notified a second agreement regarding the commencement of review proceedings with ENEL Unión Fenosa Renovables, S.A. (merged by the Company in 2011), in relation to 2011 Corporate Income Tax. At the date of preparation of these Consolidated Annual Accounts, the result of the inspections carried out during the 2016 fiscal year in relation to Corporate Income Tax has not been completed, although the eventual liabilities resulting, if materialized, as the result of the inspection should not materially affect ENDESA's Consolidated Financial Statements (see Note 3o).

In a ruling on 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 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 on 14 December 2016, and on 2 February 2017, an appeal was submitted against this to the Constitutional Court (see note 4).

The Directors of the Company consider that the provisions recognised in the Consolidated Financial Statements adequately cover the risks relating to litigation, arbitration and other matters referred to in this Note, and do not expect these issues to give rise to any liability not already provided for.

Given the nature of the risks covered by these provisions, it is impracticable to determine a reasonable timetable of payment dates, if any.

Payments made to settle litigation in 2016 and 2015 came to Euros 49 million and Euros 46 million, respectively.

17. Interest-bearing loans and borrowings

17.1. Current and non-current interest-bearing loans and borrowings

Details of current and non-current interest-bearing loans and borrowings at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016				
		Nominal value	Carrying amount		Total	Fair value
			Non-current	Current		
Bonds and other marketable securities		1,015	57	968	1,025	1,023
Bank borrowings		717	650	68	718	747
Other borrowings	(*)	3,607	3,499	108	3,607	4,252
Total interest-bearing loans and borrowings excluding derivatives		**5,339**	**4,206**	**1,144**	**5,350**	**6,022**
Derivatives	18.3	127	17	-	17	17
TOTAL	**18**	**5,466**	**4,223**	**1,144**	**5,367**	**6,039**

(*) Includes finance leases amounting to Euros 474 million classified as non-current liabilities, and Euros 23 million as current liabilities.

Million Euros

	Notes	31 December 2015				
		Nominal value	Carrying amount		Total	Fair value
			Non-current	Current		
Bonds and other marketable securities		215	226	-	226	223
Bank borrowings		676	676	-	676	693
Other borrowings	(*)	3,778	3,778	-	3,778	4,377
Total interest-bearing loans and borrowings excluding derivatives		**4,669**	**4,680**	**-**	**4,680**	**5,293**
Derivatives	18.3	-	-	-	-	-
TOTAL	**18**	**4,669**	**4,680**	**-**	**4,680**	**5,293**

(*) Includes finance leases amounting to Euros 517 million classified as non-current liabilities.

The detail of interest-bearing loans and borrowings by maturity is as follows:

Million Euros

	Maturity	Carrying amount at 31 December 2016	Fair value	Current	Non-current	Maturity					Nominal value
						2018	2019	2020	2021	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	**40**	**38**	**-**	**40**					40	32
Floating rate	2019	**985**	**985**	**968**	**17**		17				983
Total		**1,025**	**1,023**	**968**	**57**	**-**	**17**	**-**	**-**	**40**	**1,015**
Bank borrowings											
Fixed rate	2046	**21**	**22**	**-**	**21**					21	21
Floating rate	2029	**697**	**725**	**68**	**629**	61	62	62	62	382	696
Total		**718**	**747**	**68**	**650**	**61**	**62**	**62**	**62**	**403**	**717**
Other borrowings											
Fixed rate	2036	**3,551**	**4,195**	**66**	**3,485**	23	23	24	24	3,391	3,551
Floating rate	2029	**56**	**57**	**42**	**14**	2	-	2	6	4	56
Total		**3,607**	**4,252**	**108**	**3,499**	**25**	**23**	**26**	**30**	**3,395**	**3,607**
TOTAL		**5,350**	**6,022**	**1,144**	**4,206**	**86**	**102**	**88**	**92**	**3,838**	**5,339**

Million Euros

	Maturity	Carrying amount at 31 December 2015	Fair value	Current	Non-current	Maturity					Nominal value
						2017	2018	2019	2020	Subsequent	
Bonds and other marketable securities											
Fixed rate	2031	41	39	**-**	41	-	-	-	-	41	32
Floating rate	2019	185	184	**-**	185	36	132	17	-	-	183
Total		**226**	**223**	**-**	**226**	**36**	**132**	**17**	**-**	**41**	**215**
Bank borrowings											
Fixed rate	2046	21	22	**-**	21	-	-	-	-	21	21
Floating rate	2028	655	671	**-**	655	59	171	46	46	333	655
Total		**676**	**693**	**-**	**676**	**59**	**171**	**46**	**46**	**354**	**676**
Other borrowings											
Fixed rate	2036	3,522	4,121	**-**	3,522	24	39	22	23	3,414	3,522
Floating rate	2020	256	256	**-**	256	1	250	-	5	-	256
Total		**3,778**	**4,377**	**-**	**3,778**	**25**	**289**	**22**	**28**	**3,414**	**3,778**
TOTAL		**4,680**	**5,293**	**-**	**4,680**	**120**	**592**	**85**	**74**	**3,809**	**4,669**

The breakdown of gross finance debt before derivatives, by currencies, is as follows:

Million Euros

	31 December 2016							
	Initial debt structure			Effects of debt coverage ratio	Structure of debt subsequent to coverage		Interest rate	
	Amortised cost	Nominal Value	% of total		Amortised cost	% of total	Average interest rate	Effective interest rate
Euro	5,350	5,339	100.00%	-	5,350	100.00%	2.50%	2.50%
Other								
TOTAL	**5,350**	**5,339**	**100.00%**	**-**	**5,350**	**100.00%**	**-**	**-**

Million Euros

	31 December 2015							
	Initial debt structure			Effects of debt coverage ratio	Structure of debt subsequent to coverage		Interest rate	
	Amortised cost	Nominal Value	% of total		Amortised cost	% of total	Average interest rate	Effective interest rate
Euro	4,680	4,669	100.00%	-	4,680	100.00%	2.70%	2.70%
Other	-	-	-	-	-	-	-	-
TOTAL	**4,680**	**4,669**	**100.00%**	**-**	**4,680**	**100.00%**	**-**	**-**

The movement in the notional amount of non-current interest-bearing loans and borrowings excluding derivatives in 2016 and 2015 is as follows:

Million Euros

	Notional amount at 31 December 2015	Repayments and redemptions	Changes in the scope of consolidation (Note 5)	New borrowings	Transfers	Exchange rate differences	Notional amount at 31 December 2016
Bonds and other marketable securities	215	-	-	-	(168)	-	47
Bank borrowings	676	(114)	115	96	(124)	-	649
Other borrowings	3,778	(4)	5	13	(293)	-	3,499
TOTAL	**4,669**	**(118)**	**120**	**109**	**(585)**	**-**	**4,195**

Million Euros

	Notional amount at 31 December 2014	Repayments and redemptions	Changes in the scope of consolidation	New borrowings	Transfers	Exchange rate differences	Notional amount at 31 December 2015
Bonds and other marketable securities	333	(15)	-	-	(103)	-	215
Bank borrowings	505	-	-	318	(147)	-	676
Other borrowings	5,230	(1,617)	-	8	157	-	3,778
TOTAL	**6,068**	**(1,632)**	**-**	**326**	**(93)**	**-**	**4,669**

The average interest on gross interest-bearing loans and borrowings in 2016 was 2.5% (2.7% in 2015).

17.2. Other matters

Liquidity

At 31 December 2016 and 2015, ENDESA companies had an undrawn line of credit available totalling Euros 3,202 million and Euros 3,187 million, respectively, of which Euros 1,000 million correspond to a line of credit arranged with ENEL Finance International, N.V.

These credit facilities secure the refinancing of current debt presented in non-current interest-bearing loans and borrowings in the accompanying consolidated statement of financial position (see Notes 3n and 19.4), which amounted to Euros 17 million and Euros 525 million at 31 December 2016 and 2015, respectively.

The amount of these credit facilities, together with the current assets, provides sufficient coverage of ENDESA's short-term payment obligations.

Main Financial Transactions

In 2016 ENDESA issued Euro Commercial Paper (ECP) through International ENDESA, B.V., and the outstanding balance at 31 December 2016 was Euros 932 million, renewed by irrevocable lines of bank credit. These issues were made mainly to pay for the 60% stake in ENEL Green Power España, S.L.U. (see Note 5).

The main transactions in 2016 were as follows:

- On 30 December 2016, ENDESA S.A. renewed the uncommitted intercompany credit facility with ENEL Finance International N.V. for Euros 1,500 million, maturing on 31 December 2017 (see Note 34.1.2). The interest rate applied to these facilities is variable and relates to the issuance costs of ENEL commercial paper plus a margin of 6 basis points, and, in cases where such a benchmark is not available, to the ENEL 1-year curve yield adjusted by a defined formula up to the specific maturity date of the required loan. At 31 December 2016, the uncommitted intercompany line of credit had not been drawn on.

- As part of the financial operation (ENDESA Network Modernisation) arranged with the European Investment Bank (EIB) in 2014, ENDESA S.A. disbursed of Tranche B on 14 July 2016 in the amount of Euros 150 million, and Tranche C on 14 December 2016 in the amount of Euros 150 million, completing the full operation in a total amount of Euros 600 million. These tranches were drawdown in 2017.

Financial stipulations

Certain ENDESA companies' loans and borrowings contain the usual covenants in this type of agreement.

The financing agreements of ENDESA, S.A., International ENDESA B.V. and ENDESA Capital, S.A.U., which carry out most of ENDESA's financing activity in Spain, contain no obligations whereby failure to maintain certain financial ratios would lead to breach of contract and early termination.

Bond issues by ENDESA, B.V. and ENDESA Capital, S.A.U. under their global medium term notes and bank financing arranged by ENDESA, S.A. are as follows:

- Cross-default clauses, whereby debt must be prepaid in the event of default (over and above a certain amount) on the settlement of certain obligations of ENDESA, S.A. (as lender or guarantor), or of the issuers.

- Negative pledge clauses, whereby neither the issuers nor ENDESA, S.A. may issue mortgages, liens or other encumbrances on their assets to secure certain types of bonds, unless similar guarantees are issued on the bonds in question.

- "Pari passu" clauses, whereby the debts and guarantees have at least the same status as any other existing or future unsecured or non-subordinated debts issued by ENDESA, S.A. as guarantor, or by the issuers.

As regards clauses relating to credit ratings, at 31 December 2016 and 31 December 2015, ENDESA, S.A. had entered into financial transactions with the European Investment Bank (EIB), amounting to Euros 300 million and Euros 343 million, respectively, that could require additional guarantees or renegotiation if its credit rating were downgraded to below certain levels.

ENDESA, S.A. had loans and other borrowings from banks and ENEL Finance International, N.V. amounting to Euros 5,250 million with an outstanding debt of Euros 3,450 million at 31 December 2016, which could have to be repaid early in the event of a change in control over ENDESA, S.A. (Euros 4,950 million at 31 December 2015, with a drawn down balance of Euros 3,650 million).

Regarding clauses related to the assignment of assets, part of the debt ENDESA S.A. and International ENDESA B.V. include restrictions if a certain percentage of ENDESA's consolidated assets is surpassed, which varies for the related transactions from 7% to 10%. Above these ceilings, the restrictions would only apply, in general, if no equivalent consideration is received or if there was a material negative impact on ENDESA, S.A.'s solvency. The amount of debt affected by these clauses at 31 December 2016 is Euros 495 million (Euros 619 million at 31 December 2015).

Also at 31 December 2016, certain ENDESA subsidiaries that operate in the renewable energy business, and which are financed through project finance have financial debt of Euros 178 million, which includes the following clauses:

- These debts and their associated derivatives with a net market value of Euros -17 million might have to be settled early as a result of a change of control at ENDESA.

- Pledges of shares on assets granted to the lending financial institution (see Notes 6.1 and 35.1).

- Restrictions of sales of assets consisting of obtaining the authorisation of most lenders, and in certain cases, of allocating the amount of their sale to repay debt.

At 31 December 2015, there was no obligation to pledge assets assigned to the projects to creditors.

At 31 December 2016, certain ENDESA renewable subsidiaries financed through project finance are required to comply with certain Annual Debt Service Coverage Ratios ("RCASD"). With respect to the same, except for one of those companies in which the Directors are carrying out the actions necessary to refinance their short-term debt in the amount of 3 million euros, the outstanding debt at 31 December 2016 Complies with said Ratios.

ENDESA's directors do not consider that these clauses will change the current/non-current classification in the consolidated statement of financial position at 31 December 2016 and 2015.

Except as described in the preceding paragraphs, as of December 31, 2016 neither ENDESA, S.A. nor any of its subsidiaries are in breach of their financial obligations or of any type of obligation that could give rise to a situation of anticipated expiration of their financial commitments.

Other matters

At 31 December 2016 and 2015, the estimated interest on outstanding borrowings, assuming that the interest rates prevailing at that date are maintained over the term of each transaction, is as follows:

Million Euros

		Outstanding financial debt at 31 December, 2016					
Instrument	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**Subsequent**
Bonds and other marketable securities	19	2	3	3	2	2	7
Bank borrowings	322	29	27	26	26	24	190
Other borrowings	748	95	94	94	93	93	279
TOTAL	**1,089**	**126**	**124**	**123**	**121**	**119**	**476**

Million Euros

		Outstanding financial debt at 31 December, 2015					
Instrument	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**Subsequent**
Bonds and other marketable securities	19	3	2	3	3	2	6
Bank borrowings	350	29	28	26	26	24	217
Other borrowings	841	95	94	94	93	93	372
TOTAL	**1,210**	**127**	**124**	**123**	**122**	**119**	**595**

At 31 December 2016 and 2015, no issues were convertible into Company shares or grant holders privileges or rights that could, in certain cases, make the issues convertible into shares.

18. Financial instruments

The classification of non-current and current financial asset/liability instruments on the consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	31 December 2016		31 December 2015	
		Non-current	Current	Non-current	Current
Financial asset instruments					
Non-current financial assets		714	-	629	-
Current financial assets		-	363	-	353
Trade and other receivables	12	-	2,951	-	2,671
Cash and cash equivalents	13	-	418	-	346
TOTAL	**18.1**	**714**	**3,732**	**629**	**3,370**
Financial liability instruments					
Non-current financial debt	17	4,223	-	4,680	-
Other non-current liabilities	20	601	-	632	-
Current financial debt	17	-	1,144	-	-
Trade payables and other current liabilities	22	-	4,960	-	4,497
TOTAL	**18.2**	**4,824**	**6,104**	**5,312**	**4,497**

18.1. Classification of non-current and current financial assets

The classification of non-current and current financial asset instruments on the consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	31 December 2016		31 December 2015	
		Non-current	Current	Non-current	Current
Loans and receivables	18.1.1	697	3,730	611	3,370
Available-for-sale financial assets	18.1.2	8	-	7	-
Financial assets held for trading	18.3	-	-	-	-
Hedging derivatives	18.3	9	2	11	-
TOTAL		**714**	**3,732**	**629**	**3,370**

Movements in non-current financial asset instruments in 2016 and 2015 are as follows:

Million Euros

	Balance at 31 December 2015	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity (*)	Transfers and other	Changes in consolidated group (Note 5)	Transfers to non-current assets held for sale (Note 32)	Balance at 31 December 2016
Loans and receivables	613	141	(64)	(1)	(40)	50	-	699
Available-for-sale financial assets	30	-	-	-	-	1	-	31
Derivatives	11	-	(1)	-	(1)	-	-	9
Impairment losses	(25)	-	-	-	-	-	-	(25)
TOTAL	**629**	**141**	**(65)**	**(1)**	**(41)**	**51**	**-**	**714**

(*) Recognised under equity: other comprehensive income or equity: non-controlling interests, as appropriate.

Million Euros

	Balance at 31 December 2014	Additions or charges	Disposals, derecognition or reductions	Valuation adjustments recognised in equity (*)	Transfers and other	Changes in consolidated group	Transfers to non-current assets held for sale (Note 32)	Balance at 31 December 2015
Loans and receivables	594	80	(37)	1	(23)	-	(2)	613
Available-for-sale financial assets	36	-	-	-	(3)	-	(3)	30
Derivatives	15	-	(4)	-	-	-	-	11
Impairment losses	(26)	-	-	-	1	-	-	(25)
TOTAL	**619**	**80**	**(41)**	**1**	**(25)**	**-**	**(5)**	**629**

(*) Recognised under equity: other comprehensive income or equity: non-controlling interests, as appropriate.

The detail of non-current financial assets by maturity is as follows:

Million Euros

	31 December 2016	31 December 2015
Between 1 and 3 years	94	91
Between 3 and 5 years	11	23
More than five years	609	515
TOTAL	**714**	**629**

18.1.1. Loans and receivables

Details of loans and receivables by types at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016		31 December 2015	
		Non-current	Current	Non-current	Current
Cash and cash equivalents	13	-	418	-	346
Trade receivables	12	-	2,718	-	2,494
Non-financial derivatives	12 and 18.3	31	233	51	177
Financial assets		666	361	560	353
Financing of the revenue shortfall from regulated activities in Spain	4	-	258	-	155
Compensation for stranded costs in non-mainland generation (TNP)	4	-	-	-	137
Guarantees and deposits		424	-	427	-
Loans to employees		22	9	22	9
Loans to associates and joint ventures	34.2	67	5	58	13
Remuneration of the distribution activity	4	38	32	14	-
Other financial assets		115	57	39	39
TOTAL		**697**	**3,730**	**611**	**3,370**

The breakdown of trade receivables for sales and services rendered by due dates and impairments is set out in Note 19.5.

The market value of these assets does not differ substantially from their carrying amount.

Financing of the revenue shortfall from regulated activities in Spain

On 13 December, 2014, Royal Decree 1054/2014, of 12 December, was published regulating the procedure for the assignment of collection rights of the electricity system deficit for 2013 and implementing the methodology for calculating the rate at which the collection rights of this deficit and, if applicable, previous negative timing mismatches, will accrue interest (see note 4).

In 2016 and 2015, the financing of the revenue shortfall from regulated activities in Spain did not accrue interest, since the entirety of the amount pending collection during both years corresponds to transitory variations.

At 31 December 2016, the amount registered for the collection right associated with the shortfall for temporary adjustments was Euros 258 million recognised as current assets in the statement of financial position (Euros 155 million at 31 December 2015).

Compensation for stranded costs of non-mainland generation

At 31 December 2016 and 2015, in accordance with the rules described in Note 4, the amounts recorded amounted to Euros 296 million and Euros 137 million recorded under "Trade and Other Current Liabilities" and "Current Financial Assets", respectively.

Guarantee deposits

At 31 December 2016 and 2015, Guarantees and deposits mainly include guarantees and deposits received from customers in Spain upon signing contracts in guarantee of electricity supply, and they are also recognised as Other non-current liabilities in the consolidated statement of financial position (see Note 20), as they have been deposited with the pertinent public administrations in accordance with prevailing standards in Spain.

Loans to associates and joint ventures

Details by maturity of non-current and current loans to associates and joint ventures at 31 December 2016 and 2015 are as follows:

Million Euros

	Balance at 31 December 2016	Current maturity 2017	Non-current maturities					
			2018	2019	2020	2021	Subsequent	Total
Euros	72	5	-	-	1	-	65	67
Foreign currency	-	-	-	-	-	-	-	-
TOTAL	**72**	**5**	**-**	**-**	**1**	**-**	**66**	**67**

Million Euros

	Balance at 31 December 2015	Current maturity 2016	Non-current maturities					
			2017	2018	2019	2020	Subsequent	Total
Euros	71	13	-	-	-	3	55	58
Foreign currency	-	-	-	-	-	-	-	-
TOTAL	**71**	**13**	**-**	**-**	**-**	**3**	**55**	**58**

These loans earned interest at an average annual rate of 3.45% in 2016 and 2.97% in 2015.

Remuneration to the distribution activity.

At 31 December 2016, in accordance with the rules described in Note 4, the amounts recorded amounted to Euros 38 million and Euros 32 million under "Non-Current Financial Assets" and "Current Financial Assets" respectively (Euros14 million at 31 December 2015 under "Non-Current Financial Assets".

Incentives for investment in renewable energies.

At 31 December 2016, in accordance with the rules described in Note 4, the amounts recorded under "Other Financial Assets" amount to Euros 15 million.

18.1.2. Available-for-sale financial assets

At 31 December 2016 and 2015, available-for-sale financial assets corresponded to investments in other companies amounting to Euros 8 million and Euros 7 million, respectively.

At 31 December 2016, valuation adjustments on available-for-sale financial investments amounted to Euros 22 million (Euros 23 million at 31 December 2015). The individual amount of the rest of the investments recognised under this item is not significant.

18.1.3. Financial investment commitments

At 31 December 2016 and 2015, ENDESA had not entered into any agreements that included commitments to make financial investments of significant amounts, other than that existing at 31 December 2016, in relation to the acquisition of the systems and telecommunications business described in Note 12.

18.2. Classification of non-current and current financial liabilities

The classification of non-current and current financial liability instruments on the accompanying consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	31 December 2016		31 December 2015	
		Non-current	Current	Non-current	Current
Debts and payables	18.2.1	4,729	6,104	5,218	4,497
Financial liabilities held for trading		17	-	-	-
Other financial liabilities at fair value through profit and loss	(*)	78	-	94	-
Hedging derivatives	18.3	-	-	-	-
TOTAL		**4,824**	**6,104**	**5,312**	**4,497**

(*) Relates entirely to financial liabilities embedded in a fair value hedge since the contract date.

18.2.1. Debts and payables

Details of debts and payables by types at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016		31 December 2015	
		Non-current	Current	Non-current	Current
Bonds and other marketable securities	17	-	968	153	-
Bank borrowings	17	629	68	655	-
Other borrowings	17	3,499	108	3,778	-
Trade and other payables	22	-	4,848	-	4,239
Other non-current	20	589	-	573	-
Non-financial derivatives	18.3, 20 and 22	12	112	59	258
TOTAL		**4,729**	**6,104**	**5,218**	**4,497**

18.3. Derivative financial instruments

Applying the risk management policy described in Note 19, ENDESA mainly uses interest rate, foreign currency and physical hedging derivatives.

ENDESA does not present information on embedded derivatives separately, as the economic characteristics and risks incidental to these derivatives strictly relate to the host contracts.

Details of the valuation of derivative financial instruments at 31 December 2016 and 2015 are as follows:

Million Euros

	31 December 2016			
	Assets		Liabilities	
	Current	Non-current	Current	Non-current
Debt derivatives	**2**	**9**	**-**	**17**
Interest rate hedges	2	9	-	-
Fair value hedges	2	9	-	-
Derivatives not designated as hedging instruments	-	-	-	17
Physical derivatives	**232**	**31**	**112**	**12**
Foreign currency hedges	7	-	-	-
Cash flow hedges	7	-	-	-
Price hedges	69	-	-	-
Cash flow hedges	69	-	-	-
Derivatives not designated as hedging instruments	156	31	112	12
Other hedges	**1**	**-**	**-**	**-**
TOTAL	**235**	**40**	**112**	**29**

Million Euros

	31 December 2015			
	Assets		Liabilities	
	Current	Non-current	Current	Non-current
Debt derivatives	**-**	**11**	**-**	**-**
Interest rate hedges	-	11	-	-
Fair value hedges	-	11	-	-
Derivatives not designated as hedging instruments	-	-	-	-
Physical derivatives	**177**	**51**	**258**	**59**
Foreign currency hedges	5	-	2	-
Cash flow hedges	5	-	2	-
Price hedges	3	1	41	1
Cash flow hedges	3	1	41	1
Derivatives not designated as hedging instruments	169	50	215	58
Other hedges	**-**	**-**	**-**	**-**
TOTAL	**177**	**62**	**258**	**59**

Details by maturity of the notional or contractual amounts of derivatives contracted by ENDESA, and their fair value at 31 December 2016 and 2015, are as follows:

Million Euros

Derivatives	31 December 2016							
	Fair value	Notional amount						
		2017	2018	2019	2020	2021	Subsequent	Total
FINANCIAL DERIVATIVES	**(6)**	**48**	**-**	**15**	**83**	**-**	**49**	**195**
Interest rate hedges	**11**	**41**	**-**	**15**	**-**	**-**	**12**	**68**
Fair value hedges	11	41	-	15	-	-	12	68
Financial swaps	11	41	-	15	-	-	12	68
Derivatives not designated as hedging instruments	**(17)**	**7**	**-**	**-**	**83**	**-**	**37**	**127**
Financial swaps	(17)	7	-	-	83	-	37	127
PHYSICAL DERIVATIVES	**140**	**2,618**	**379**	**73**	**1**	**-**	**-**	**3,071**
Exchange rate	**27**	**516**	**104**	**18**	**-**	**-**	**-**	**638**
Designated as hedges	8	266	5	-	-	-	-	271
Futures	8	266	5	-	-	-	-	271
Not designated as hedges	19	250	99	18	-	-	-	367
Futures	19	250	99	18	-	-	-	367
Price	**113**	**2,102**	**275**	**55**	**1**	**-**	**-**	**2,433**
Designated as hedges	69	139	-	-	-	-	-	139
Financial swaps	69	139	-					139
Other	-	-						-
Not designated as fuel hedges	81	1,161	216	40	1	-	-	1,418
Financial swaps	63	897	208	40	1			1,146
Other	18	264	8	-				272
Not designated as electricity hedges	(37)	802	59	15	-	-	-	876
Financial swaps	(37)	801	43	15				859
Other	-	1	16					17
TOTAL	**134**	**2,666**	**379**	**88**	**84**	**-**	**49**	**3,266**

Million Euros

Derivatives	31 December 2015							
	Fair value	Notional amount						
		2016	2017	2018	2019	2020	Subsequent	Total
FINANCIAL DERIVATIVES	**11**	**36**	**20**	**-**	**15**	**-**	**12**	**83**
Interest rate hedges	**11**	**36**	**20**	**-**	**15**	**-**	**12**	**83**
Fair value hedges	11	36	20	-	15	-	12	83
Financial swaps	11	36	20	-	15	-	12	83
Derivatives not designated as hedging instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial swaps	-	-	-	-	-	-	-	-
PHYSICAL DERIVATIVES	**(89)**	**3,257**	**640**	**22**	**-**	**-**	**-**	**3,919**
Exchange rate	**5**	**712**	**8**	**-**	**-**	**-**	**-**	**720**
Designated as hedges	3	419	8	-	-	-	-	427
Futures	3	419	8	-	-	-	-	427
Not designated as hedges	2	293	-	-	-	-	-	293
Futures	2	293	-	-	-	-	-	293
Price	**(94)**	**2,545**	**632**	**22**	**-**	**-**	**-**	**3,199**
Designated as hedges	(38)	400	34	-	-	-	-	434
Financial swaps	(38)	400	34					434
Other	-	-						-
Not designated as fuel hedges	(58)	1,391	498	22	-	-	-	1,911
Financial swaps	(71)	1,179	439	18	-	-	-	1,636
Other	13	212	59	4	-	-	-	275
Not designated as electricity hedges	2	754	100	-	-	-	-	854
Financial swaps	1	726	100	-	-	-	-	826
Other	1	28	-	-	-	-	-	28
TOTAL	**(78)**	**3,293**	**660**	**22**	**15**	**-**	**12**	**4,002**

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk undertaken by ENDESA, since these amounts only constitute the basis on which the derivative settlement calculations were made.

The accompanying consolidated income statement did not reflect any amounts in respect of the ineffective portion of cash flow hedges in 2016 and 2015.

The amounts recognised on the consolidated income statement in relation to the derivatives and hedged items of fair value hedges were as follows:

Million Euros

		2016		2015	
		Revenue	Expenses	Revenue	Expenses
Hedged items		1	-	3	-
Derivatives	(*)	-	1	-	3
TOTAL		**1**	**1**	**3**	**3**

(*) Without settlement.

During the years 2016 and 2015 there were no interruptions in derivatives designated initially as cash flow hedges.

There was no discontinuation of hedge accounting of derivatives initially designated as cash flows in 2015.

18.4. Net gains and losses on non-current and current financial assets and liabilities by category

18.4.1. Net gains and losses on financial assets by category

The net gains and losses on financial assets by category are as follows:

Million Euros

	2016						
	Financial assets held for trading	Other financial assets at fair value through profit and loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	TOTAL
Net gains/(losses) in the consolidated income statement	4	1	-	(135) (*)	-	25	(105)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-	104	104
TOTAL	**4**	**1**	**-**	**(135)**	**-**	**129**	**(1)**

(*) Includes net impairment losses on accounts receivable of Euros 104 million (see Notes 12 and 28).

Million Euros

	2015						
	Financial assets held for trading	Other financial assets at fair value through profit and loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives	TOTAL
Net gains/(losses) in the consolidated income statement	12	3	-	(129) (*)	-	150	36
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-	(84)	(84)
TOTAL	**12**	**3**	**-**	**(129)**	**-**	**66**	**(48)**

(*) Includes net impairment losses on accounts receivable of Euros 134 million (see Notes 12 and 28).

18.4.2. Net gains and losses on financial assets by category

The net losses on financial liabilities by category are as follows:

Million Euros

	2016				
	Financial assets held for trading	Other financial liabilities at fair value through profit and loss	Debts and payables	Hedging derivatives	TOTAL
Net gains/(losses) in the consolidated income statement	-	-	1 (*)	(3)	(2)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-
TOTAL	**-**	**-**	**1**	**(3)**	**(2)**

(*) Includes debt interest of Euros 133 million (see Note 29).

Million Euros

	2015				
	Financial assets held for trading	Other financial liabilities at fair value through profit and loss	Debts and payables	Hedging derivatives	TOTAL
Net gains/(losses) in the consolidated income statement	(7)	-	(120) (*)	(9)	(136)
(Losses) / gains in other consolidated comprehensive income	-	-	-	-	-
TOTAL	**(7)**	**-**	**(120) (*)**	**(9)**	**(136)**

(*) Includes debt interest of Euros 165 million (see Note 29).

18.5. Offsetting of non-current and current financial assets and liabilities

The detail of non-current and current financial assets and liabilities set off at 31 December 2016 and 2015 is as follows:

Million Euros

		31 December 2016					
					Amounts in netting arrangements not set off		
	Notes	Gross amount of financial assets	Amount set off	Net amount of financial assets presented on the financial statements	Financial instrument	Financial collateral	Net amount
Non-current financial assets	18.1	714	-	714	(18)	-	696
Non-financial Derivatives	18.3	31	-	31	(18)	-	13
Total non-current Assets		**714**	**-**	**714**	**(18)**	**-**	**696**
Trade and other receivables (*)	12	2,951	-	2,951	(219)	-	2,732
Trade receivables for sales and rendering of services		2,684	-	2,684	(119)	-	2,565
Non-financial derivatives	18.3	233	-	233	(100)	-	133
Current financial assets		363	-	363		(16)	347
Other financial assets		57	-	57	-	(16)	41
Total current assets		**3,314**	**-**	**3,314**	**(219)**	**(16)**	**3,079**

(*) Does not include balances with public administrations.

Million Euros

	Notes	31 December 2015					
					Amounts in netting arrangements not set off		
		Gross amount of financial assets	Amount set off	Net amount of financial assets presented on the financial statements	Financial instrument	Financial collateral	Net amount
Non-current financial assets	18.1	629	-	629	(46)	-	583
Derivatives	18.3	51	-	51	(46)	-	5
Total non-current Assets		**629**	**-**	**629**	**(46)**	**-**	**583**
Trade and other receivables (*)	12	2,671	-	2,671	(283)	-	2,388
Trade receivables for sales and services		2,662	-	2,662	(128)	-	2,534
Derivatives	18.3	177	-	177	(155)	-	22
Total current assets		**2,671**	**-**	**2,671**	**(283)**	**-**	**2,388**

(*) Does not include balances with public administrations.

Million Euros

	Notes	31 December 2016					
					Amounts in netting arrangements not set off		
		Gross amount of financial liabilities	Amount set off	Net amount of financial liabilities presented on the financial statements	Financial instrument	Financial collateral	Net amount
Non-current interest-bearing loans and borrowings	17.1	4,223	-	4,223	-	-	4,223
Other borrowings		3,499	-	3,499	-	-	3,499
Other non-current liabilities	20	601	-	601	(11)	-	590
Non-financial derivatives	18.3	12	-	12	(11)	-	1
Total non-current liabilities		**4,824**	**-**	**4,824**	**(11)**	**-**	**4,813**
Trade payables and other current liabilities (*)	22	4,960	-	4,960	(208)	-	4,752
Suppliers and other payables Payables		3,429	-	3,429	(119)	-	3,310
Non-financial derivatives	18.3	112	-	112	(89)	-	23
Current interest-bearing loans and borrowings		1,144	-	1,144	-	(34)	1,110
Total current liabilities		**6,104**	**-**	**6,104**	**(208)**	**(34)**	**5,862**

(*) Does not include balances with public administrations.

Million Euros

	Notes	31 December 2015					
					Amounts in netting arrangements not set off		
		Gross amount of financial liabilities	Amount set off	Net amount of financial liabilities presented on the financial statements	Financial instrument	Financial collateral	Net amount
Non-current interest-bearing loans and borrowings	17.1	4,680	-	4,680	-	-	4,680
Other borrowings		3,778	-	3,778	-	-	3,778
Other non-current liabilities	20	632	-	632	(46)	-	586
Derivatives	18.3	59	-	59	(46)	-	13
Total non-current liabilities		**5,312**	**-**	**5,312**	**(46)**	**-**	**5,266**
Trade payables and other current liabilities (*)	22	4,497	-	4,497	(284)	-	4,213
Trade payables		3,386	-	3,386	(129)	-	3,257
Derivatives	18.3	258	-	258	(155)	-	103
Total current liabilities		4,497	**-**	4,497	**(284)**	**-**	**4,213**

(*) Does not include balances with public administrations.

18.6. Fair value measurement

18.6.1. Fair value measurement of categories of financial assets

The classifications of non-current and current financial assets measured at fair value in the consolidated statement of financial position by fair value hierarchy level at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016			
		Fair value	Level 1	Level 2	Level 3
Debt derivatives		9	-	9	-
Interest rate Hedges		9	-	9	-
Cash flow hedges		-	-	-	-
Fair value hedges		9	-	9	-
Physical derivatives		31	2	29	-
Derivatives not designated as hedging instruments		31	2	29	-
Total non-current assets		**40**	**2**	**38**	**-**
Debt securities		-	-	-	-
Debt derivatives		-	-	-	-
Interest rate hedges:		2	-	2	
Cash flow hedges		-	-	-	
Fair value hedges		2	-	2	
Derivatives not designated as hedging instruments		-	-	-	-
Physical derivatives		232	18	214	-
Foreign currency hedges		7	-	7	-
Cash flow hedges		7		7	-
Price hedges		69	-	69	-
Cash flow hedges		69	-	69	-
Derivatives not designated as hedging instruments		156	18	138	-
Other hedges		1	-	1	-
Inventories		-	-	-	-
Non-current assets held for sale and discontinued operations	32	-	-	-	-
Total current assets		**235**	**18**	**217**	**-**

Million Euros

	Notes	31 December 2015			
		Fair value	Level 1	Level 2	Level 3
Debt derivatives		11	-	11	-
Interest rate Hedges		11	-	11	-
Cash flow hedges		-	-	-	-
Fair value hedges		11	-	11	-
Physical derivatives		51	2	49	-
Price hedges		1	1	-	-
Cash flow hedges		1	1	-	-
Derivatives not designated as hedging instruments		50	1	49	-
Total Non-current Assets		**62**	**2**	**60**	**-**
Debt securities					-
Debt derivatives		-	-	-	-
Derivatives not designated as hedging instruments		-	-	-	-
Physical derivatives		177	7	170	-
Foreign currency hedges		5	-	5	-
Cash flow hedges		5		5	-
Price hedges		3	-	3	-
Cash flow hedges		3	-	3	-
Derivatives not designated as hedging instruments		169	7	162	-
Other hedges		-	-	-	-
Inventories		10	10	-	-
Non-current assets held for sale and discontinued operations	32	50	-	50	-
Total current assets		**237**	**17**	**220**	**-**

There were no level transfers among these financial assets in 2016 and 2015.

18.6.2. Fair value measurement of categories of assets not measured at fair value

At 31 December 2016 and 2015, the classifications of non-current assets not measured at fair value in the consolidated statement of financial position, but whose fair value is disclosed in the notes to these Consolidated Financial Statements by fair value hierarchy level are as follows:

Million Euros

	Notes	31 December 2016			
		Fair value	Level 1	Level 2	Level 3
Investment property	3b and 7.1	59	-	-	59

Million Euros

	Notes	31 December 2015			
		Fair value	Level 1	Level 2	Level 3
Investment property	3b and 7.1	58	-	-	58

18.6.3. Fair value measurement of categories of financial liabilities

The classifications of non-current and current financial liabilities measured at fair value on the consolidated statement of financial position by fair value hierarchy level at 31 December 2016 and 2015 are as follows:

Million Euros

	31 December 2016			
	Fair value	Level 1	Level 2	Level 3
Bank borrowings	21	-	21	-
Bonds and other marketable securities	57	-	57	-
Debt derivatives	17	-	17	-
Interest rate hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Fair value hedges	-	-	-	-
Derivatives not designated as hedging instruments	17	-	17	-
Physical derivatives	12	-	12	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Price hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Derivatives not designated as hedging instruments	12	-	12	-
Total non-current liabilities	**107**	**-**	**107**	**-**
Debt derivatives	-	-	-	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Physical derivatives	112	36	76	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Price hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Derivatives not designated as hedging instruments	112	36	76	-
Other hedges	-	-	-	-
Total current liabilities	**112**	**36**	**76**	**-**

Million Euros

	31 December 2015			
	Fair value	Level 1	Level 2	Level 3
Bank borrowings	21	-	21	-
Bonds and other marketable securities	73	-	73	-
Physical derivatives	59	3	56	-
Price hedges	1	1	-	-
Cash flow hedges	1	1	-	-
Derivatives not designated as hedging instruments	58	2	56	-
Total non-current liabilities	**153**	**3**	**150**	**-**
Debt derivatives	-	-	-	-
Foreign currency hedges	-	-	-	-
Cash flow hedges	-	-	-	-
Fair value hedges	-	-		-
Physical derivatives	258	7	251	-
Foreign currency hedges	2	-	2	-
Cash flow hedges	2	-	2	-
Price hedges	41	1	40	-
Cash flow hedges	41	1	40	-
Derivatives not designated as hedging instruments	215	6	209	-
Other hedges	-	-	-	-
Total current liabilities	**258**	**7**	**251**	**-**

There were no level transfers among these financial liabilities in 2016 and 2015.

18.6.4. Fair value measurement of categories of financial liabilities not measured at fair value

The classifications of non-current and current financial liabilities not measured at fair value in the consolidated statement of financial position, but disclosed in the notes to these Consolidated Financial Statements by fair value hierarchy level at 31 December 2016 and 2015 are as follows:

Million Euros

	31 December 2016			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Bank borrowings	665	-	665	-
Fixed rate	1	-	1	-
Floating rate	664	-	664	-
Bonds and other marketable securities	-	-	-	-
Fixed rate	-	-	-	-
Floating rate	-	-	-	-
Other financial liabilities	4,050	-	4,050	-
Fixed rate	4,035	-	4,035	-
Floating rate	15	-	15	-
Total non-current liabilities	**4,715**	**-**	**4,715**	**-**
Bank borrowings	61	-	61	-
Fixed rate	-	-	-	-
Floating rate	61	-	61	-
Bonds and other marketable securities	966	-	966	-
Fixed rate	-	-	-	-
Floating rate	966	-	966	-
Other financial liabilities	202	-	202	-
Fixed rate	160	-	160	-
Floating rate	42	-	42	-
Total current liabilities	**1,229**	**-**	**1,229**	**-**

Million Euros

	31 December 2015			
	Fair value	**Level 1**	**Level 2**	**Level 3**
Bank borrowings	672	-	672	-
Fixed rate	1	-	1	-
Floating rate	671	-	671	-
Bonds and other marketable securities	150	-	150	-
Fixed rate	-	-	-	-
Floating rate	150	-	150	-
Other financial liabilities	4,377	-	4,377	-
Fixed rate	4,121	-	4,121	-
Floating rate	256	-	256	-
Total non-current liabilities	**5,199**	**-**	**5,199**	**-**

19. Risk management policy

The activities of ENDESA and its subsidiaries are carried out in an environment where outside factors may affect the performance of its operations and its earnings, thereby making it necessary to manage and control their exposure.

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors identify precisely the acceptable risk level, with a view to the managers of the various Business Lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

The general principles of ENDESA's Risk Management and Control Policy are as follows:

- The Board of Directors of ENDESA, S.A. is responsible for determining the Risk Management and Control Policy, including tax issues, the supervision of the internal information and control systems and the setting of ENDESA's acceptable risk level at all times.

- The Risk Committee carries out the risk management and control functions under the direct supervision of the Audit and Compliance Committee.

- ENDESA S.A. must establish the rules and tools necessary to be able to develop a continuous process of identification, quantification and information on all relevant risks that might affect the Company.

- The operational organisation of risk management and control is carried out through the risk control and risk management functions, which are independent from each other.

- The businesses, corporate areas and companies establish the risk management controls required to ensure that transactions are performed in the markets in accordance with ENDESA, S.A.'s policies, principles and procedures, respecting the following limits and precepts:

  - Alignment of the risk levels with the objectives set by the Board of Directors.

  - Optimisation of risk management and control on a consolidated basis, priority being given this rather than individual management of each individual risk.

  - Continuous evaluation of the hedging, transfer and mitigation measures to guarantee its suitability and the adoption of best market practices.

  - Monitoring of the prevailing legislation, standards and regulations, including those relating to tax, to guarantee that transactions are performed in accordance with the rules governing the business.

  - Upholding and complying with internal rules, focusing in particular on Corporate Governance, the Code of Ethics, the Zero-tolerance of corruption plan, and the general principles for criminal risk prevention.

  - The duty to protect the health and safety of those working within and for the Company.

  - Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental impacts on the Company's activities.

  - Responsible optimisation of the use of resources available in order to provide shareholders with a return as part of corporate relations based on the principles of loyalty and transparency.

  - ENDESA's financial policies are aimed at active management of the financial risks associated with ordinary business and, in general, speculative positions are restricted.

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

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A.

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

The risk management cycle is the set of activities involved in identifying, measuring, controlling and managing the various risks incurred by the Company and its Business Lines. The purpose of risk management is to implement actions aimed at adjusting risk levels at each level of the Company to the set risk tolerance and predisposition.

The risk management and control mechanism are set out in the following notes.

19.1. Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities bearing interest at fixed rates and the future flows from assets and liabilities indexed to variable interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.

The goal is to reduce the amount of borrowings subject to interest rate fluctuations is reduced by the use of interest rate swap contracts. In any case, the structure of the contracts adapts to that of the underlying financial instrument, and never exceeds the maturity of the underlying financial instrument, so that any changes in the fair value or cash flows of these contracts are offset by changes in the fair value or cash flows of the underlying position.

The structure of financial risk, having considered the derivatives arranged, is as follows:

Million Euros

	Net position			
	31 December 2016		31 December 2015	
	Before derivatives	After derivatives	Before derivatives	After derivatives
Fixed interest rate	3,660	3,660	3,537	3,537
Floating interest rates	1,272	1,278	797	786
TOTAL	**4,932**	**4,938**	**4,334**	**4,323**

At 31 December 2016 and 2015, the reference interest rate for the borrowings arranged by ENDESA is mainly Euribor.

The breakdown of the notional amounts and fair values of interest-rate derivatives at 31 December 2016 and 2015 by designation is as follows:

Million Euros

	31 December 2016					
INTEREST RATE DERIVATIVES	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Fair value hedging derivatives						
Interest rate swaps	68	11	68	11	-	-
Interest rate options	-	-	-	-	-	-
Trading derivatives						
Interest rate swaps	127	(17)	-	-	127	(17)
Interest rate options	-	-	-	-	-	-
Total interest rate swaps	195	(6)	68	11	127	(17)
TOTAL	**195**	**(6)**	**68**	**11**	**127**	**(17)**

Million Euros

	31 December 2015					
INTEREST RATE DERIVATIVES	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Fair value hedging derivatives						
Interest rate swaps	83	11	83	11	-	-
Interest rate options	-	-	-	-	-	-
Trading derivatives						
Interest rate swaps	-	-	-	-	-	-
Interest rate options	-	-	-	-	-	-
Total interest rate swaps	83	11	83	11	-	-
TOTAL	**83**	**11**	**83**	**11**	**-**	**-**

Cash flows projected for the coming years in relation to these derivatives are as follows:

Million Euros

		Cash flow stratification expected					
Present value (net of cumulative interest)	31 December 2016	2017	2018	2019	2020	2021	Subsequent
Fair value hedging derivatives	11	3	3	3	3	2	22
Interest rate trading derivatives	(17)	(5)	(5)	(4)	(2)	(1)	-

Million Euros

Present value (net of cumulative interest)	31 December 2015	Cash flow stratification expected 2016	2017	2018	2019	2020	Subsequent
Fair value hedging derivatives	11	3	3	3	3	2	22
Interest rate trading derivatives	-	-	-	-	-	-	-

Considering effective cash flow hedges, 69% of debt was protected from interest rate risk at 31 December 2016 (77% at 31 December 2015). In addition, taking fair value hedges into consideration, this percentage was 68% at 31 December 2016 (76% at 31 December 2015).

Sensitivity analysis

At 31 December 2016 and 2015, the impact of interest-rate fluctuations on the consolidated income statement and statement of recognised income and expenses, other variables remaining constant, is as follows:

Million Euros

	31 December 2016			31 December 2015	
	Basis points change	**Consolidated income statement**	**Consolidated statement of other comprehensive income**	**Consolidated income statement**	**Consolidated statement of other comprehensive income**
Finance costs of variable gross borrowings after derivatives					
Interest rate increase	+25	4	-	4	-
Interest rate reduction	-25	(4)	-	(4)	-
Fair value of derivative hedging instruments					
Fair value					
Interest rate increase	+25	(1)	-	(1)	-
Interest rate reduction	-25	1	-	1	-
Cash flow					
Interest rate increase	+25	-	1	-	-
Interest rate reduction	-25	-	(1)	-	-
Fair value of derivative instruments not designated as hedging instruments					
Interest rate increase	+25	-	-	-	-
Interest rate reduction	-25	-	-	-	-

19.2. Currency risk

Currency risks mainly relate to transactions for the purchase of raw energy (especially natural gas and coal) on international markets where the prices of these materials (“commodities”) are normally in US dollars. Similarly, ENDESA incurs in this risk in the management of debt in foreign currencies, procurements, the payment of insurance premiums, plant maintenance contracts, and dividends.

ENDESA has contracted currency swaps and exchange rate insurance to mitigate its currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.

The term of the contracts never exceeds the maturity of the underlying financial instrument, so that any changes in the fair value or cash flows of these contracts are offset by changes in the fair value or cash flows of the underlying position.

The breakdown of exchange rate derivatives by notional amount and fair value at 31 December 2016 and 2015 is as follows:

Million Euros

EXCHANGE RATE DERIVATIVES	31 December 2016					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives						
Futures	271	8	224	8	47	-
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Fair value hedging derivatives						
Futures	-	-	-	-	-	-
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Trading derivatives						
Futures	368	19	336	20	32	(1)
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Total futures	**639**	**27**	**560**	**28**	**79**	**(1)**
Total cross-currency swaps	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**639**	**27**	**560**	**28**	**79**	**(1)**

Million Euros

EXCHANGE RATE DERIVATIVES	31 December 2015					
	Net notional amount	Net fair value	Notional, financial assets	Assets, fair value	Notional, financial liabilities	Liabilities, fair value
Cash flow hedging derivatives						
Futures	427	3	274	5	153	(2)
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Fair value hedging derivatives						
Futures	-	-	-	-	-	-
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Trading derivatives						
Futures	293	2	204	4	89	(2)
Options	-	-	-	-	-	-
Cross-currency swaps	-	-	-	-	-	-
Total futures	**720**	**5**	**478**	**9**	**242**	**(4)**
Total cross-currency swaps	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**720**	**5**	**478**	**9**	**242**	**(4)**

Cash flows projected for the coming years in relation to these derivatives are as follows:

Million Euros

Present value (net of cumulative interest)	31 December 2016	Cash flow stratification expected					
		2017	2018	2019	2020	2021	Subsequent
Exchange rate derivatives - cash flow hedges	8	8	-	-	-	-	-
Exchange rate derivatives - trading	**19**	**12**	**6**	**1**	**-**	**-**	**-**

Million Euros

Present value (net of cumulative interest)	31 December 2015	Cash flow stratification expected					
		2016	2017	2018	2019	2020	Subsequent
Exchange rate derivatives - cash flow hedges	**3**	**3**	**-**	**-**	**-**	**-**	**-**
Exchange rate derivatives - trading	**2**	**2**	**-**	**-**	**-**	**-**	**-**

At 31 December 2016 and 2015, no non-current debt was denominated in foreign currencies, while cash and cash equivalents stood at Euros 2 million (31 December 2015: Euros 5 million) (see Note 13).

Sensitivity analysis

At 31 December 2016 and 2015, the impact of exchange-rate fluctuations of the euro against the US dollar (USD) on the consolidated income statement and statement of other comprehensive income, other variables remaining constant, is as follows.

Million Euros

	31 December 2016			31 December 2015	
	Percentage variation	Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Fair value of derivative hedging instruments					
Cash flow					
Euro depreciation	10%	-	24	-	41
Euro appreciation	10%	-	(20)	-	(34)
Fair value					
Euro depreciation	10%	-	-		
Euro appreciation	10%	-	-		
Fair value of derivative instruments not designated as hedging instruments					
Euro depreciation	10%	30	-	13	
Euro appreciation	10%	(24)	-	(11)	

19.3. Commodity price risk

The Company is exposed to the risk of fluctuations in energy commodity prices, including carbon dioxide emission allowances (CO_2), mainly through the following:

- Purchases of fuel stocks in the electricity generation process.
- Power sale and purchase transactions on domestic and international markets.

Exposure to fluctuations in commodity prices is controlled by monitoring risk to ensure that it remains within the risk appetite as a measure to balance expected returns against assumed risk. These limits are based on expected results with a confidence interval of 95%. Industrial portfolio positions are reviewed monthly on the basis of Profit at Risk, and the trading portfolio is reviewed daily on the basis of Value at Risk.

Individual analyses are also performed on the impact of certain relevant transactions on ENDESA's risk profile and delivery of its predefined limits.

Exposure to this risk in the long term is managed by diversifying contracts, managing the procurements portfolio by reference to indices with a similar or comparable trend to that of the end electricity (generation) or sale (retailing) prices and through regularly renegotiated contractual clauses aimed at maintaining the economic balance of procurements.

In the short and medium term, fluctuations in commodity prices are managed through specific hedges, generally derivatives.

The breakdown of commodity derivatives by notional amount and fair value at 31 December 2016 and 2015 is as follows:

Million Euros

	31 December 2016					
	Net notional amount	Notional, financial assets	Notional, financial liabilities	Net fair value	Assets, fair value	Liabilities, fair value
Cash flow hedging derivatives	**139**	**133**	**6**	**69**	**69**	**-**
Liquid fuel and gas swaps	17	17	-	2	2	-
Coal derivatives	105	103	2	66	66	-
Electricity swaps	17	13	4	1	1	-
Derivatives not designated as hedging instruments	**2,294**	**1,190**	**1,104**	**44**	**167**	**(123)**
Liquid fuel and gas swaps	1,139	707	432	64	107	(43)
Other liquid fuel and gas derivatives	20	10	10	-	3	(3)
Electricity swaps	859	337	522	(37)	34	(71)
Electricity options	17	-	17	-	-	-
Other electricity derivatives	-	-	-	-	-	-
Coal swaps	7	-	7	(1)	-	(1)
Other coal derivatives	196	103	93	13	15	(2)
Other physical derivatives	56	33	23	5	8	(3)
TOTAL	**2,433**	**1,323**	**1,110**	**113**	**236**	**(123)**

Million Euros

	31 December 2015					
	Net notional amount	Notional, financial assets	Notional, financial liabilities	Net fair value	Assets, fair value	Liabilities, fair value
Cash flow hedging derivatives	**434**	**110**	**324**	**(38)**	**4**	**(42)**
Liquid fuel and gas swaps	-	-	-	-	-	-
Coal derivatives	230	24	206	(35)	1	(36)
Electricity swaps	204	86	118	(3)	3	(6)
Derivatives not designated as hedging instruments	**2,765**	**1,229**	**1,536**	**(56)**	**215**	**(271)**
Liquid fuel and gas swaps	1,574	586	988	(62)	167	(229)
Other liquid fuel and gas derivatives	22	10	12	(1)	1	(2)
Electricity swaps	826	417	409	1	18	(17)
Electricity options	21	7	14	-	-	-
Other electricity derivatives	7	7	-	1	1	-
Coal swaps	62	7	55	(9)	3	(12)
Other coal derivatives	118	83	35	5	16	(11)
Other physical derivatives	135	112	23	9	9	-
TOTAL	**3,199**	**1,339**	**1,860**	**(94)**	**219**	**(313)**

Details of the fair value broken down for the coming years in relation to these derivatives are as follows:

Million Euros

Fair value	Fair value stratification						
	31 December 2016	2017	2018	2019	2020	2021	Subsequent
Cash flow hedging derivatives							
Electricity derivatives	1	1	-	-	-	-	-
Coal derivatives	66	66	-	-	-	-	-
Liquid fuel and gas derivatives	2	2	-	-	-	-	-
Derivatives not designated as hedging instruments							
Electricity derivatives	(37)	(38)	1	-	-	-	-
Coal derivatives	12	13	(1)	-	-	-	-
Liquid fuel and gas derivatives	64	53	10	1	-	-	-
Other physical derivatives	5	5	-	-	-	-	-

Million Euros

Fair value	31 December 2015	Fair value stratification					
		2016	2017	2018	2019	2020	Subsequent
Cash flow hedging derivatives							
Electricity derivatives	(3)	(3)	-	-	-	-	-
Coal derivatives	(35)	(35)	-	-	-	-	-
Liquid fuel and gas derivatives	-	-	-	-	-	-	-
Derivatives not designated as hedging instruments							
Electricity derivatives	2	3	(1)	-	-	-	-
Coal derivatives	(4)	(4)	(2)	2	-	-	-
Liquid fuel and gas derivatives	(63)	(54)	(8)	(1)	-	-	-
Other physical derivatives	9	7	2	-	-	-	-

Sensitivity analysis

Details of the impact on the value of existing commodities derivatives at 31 December 2016 and 2015 of a 10% variation in raw commodity prices, other variables remaining constant, are as follows:

Million Euros

Cash flow hedging derivatives	31 December 2016			31 December 2015	
	Fluctuations in commodity prices	Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	-	2	-	(1)
	-10%	-	(2)	-	3
Coal derivatives	10%	-	17	-	20
	-10%	-	(17)	-	(19)
Liquid fuel and gas derivatives	10%	-	2	-	-
	-10%	-	(2)	-	-

Million Euros

Derivatives not designated as hedging instruments	31 December 2016			31 December 2015	
	Fluctuations in commodity prices	Consolidated income statement	Consolidated statement of other comprehensive income	Consolidated income statement	Consolidated statement of other comprehensive income
Electricity derivatives	10%	(30)	-	4	-
	-10%	31	-	(3)	-
Coal derivatives	10%	1	-	7	-
	-10%	(1)	-	(8)	-
Liquid fuel and gas derivatives	10%	27	-	13	-
	-10%	(27)	-	(12)	-
Other physical derivatives	10%	1	-	(1)	-
	-10%	(1)	-	-	-

19.4. Liquidity risk

Liquidity risk may cause difficulties in meeting the obligations associated with financial liabilities, which are settled by provision of cash or other financial assets. Liquidity risk management aims to guarantee a level of liquidity minimising opportunity cost, and to maintain a structure of financial debt on the basis of due dates and sources of finance. In the short term, liquidity risk is mitigated by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.

ENDESA's liquidity policy consists of arranging committed long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.

These needs include maturity of net financial debt. Further details of the characteristics and conditions of borrowings and financial derivatives are provided in Notes 17 and 18.

The cash function is centralised at ENDESA Financiación Filiales, S.A.U., which draws up cash forecasts to ensure it has sufficient cash to meet operational needs, maintaining sufficient levels of availability on its undrawn loans. At 31 December, 2016 and 2015, ENDESA's liquidity was as follows:

Million Euros

	Notes	31 December 2016			31 December 2015		
		Current maturity	Non-current maturities	Total	Current maturity	Non-current maturities	Total
Cash and cash equivalents	13	418	-	418	346	-	346
Unconditional undrawn credit facilities	17.2 (1)	14	3,188	3,202	-	3,187	3,187
Liquidity		**432**	**3,188**	**3,620**	**346**	**3,187**	**3,533**

(1) At 31 December 2016 and 2015, undrawn credit facilities with ENEL Finance International, N.V. totalled Euros 1,000 million, with no drawdowns at these dates.

At 31 December 2016, ENDESA has negative working capital of Euros 2,086 million as a result of its cash management policy. The undrawn amount on the Company's long-term credit facilities provide assurance that the Company can obtain sufficient financial resources to continue to operate, realise its assets and settle its liabilities for the amounts shown in the statement of financial position.

19.5. Credit risk

Credit risk is generated when a counterparty does not meet its obligations set out in a financial or commercial contract, giving rise to financial losses. ENDESA is exposed to credit risk from its operational and financial activities, including derivatives, deposits with banks, transactions in foreign currency and other financial instruments.

Unexpected changes to the credit rating of a counterparty have an impact on the creditor's position in terms of solvency (non-compliance risk) or changes to market value (spread risk).

ENDESA closely monitors its credit risk, taking additional precautions which include the following, among others:

- Risk analysis, assessment and monitoring of counterparty credit quality.
- Establishing contractual clauses guarantee requests, or contracting insurance where necessary.
- Exhaustive review of the level of counterparty exposure.
- Counterparty diversification.

Historically, credit risk on trade receivables is limited, given the short period of collection from customers, as supply may be cut off in accordance with the applicable regulations before any significant arrears are accumulated (see Note 12).

Matured debt with third parties amounted to Euros 824 million at 31 December 2016, which represents 19.8 days of equivalent billings (Euros 700 million and 16.5 equivalent billing days, respectively, at 31 December 2015).

ENDESA's policies for managing credit risk on financial assets are as follows:

– ENDESA and its subsidiaries place their cash surpluses in counterparties which are leading entities in the markets in which they operate. At 31 December, 2016, the greatest exposure to cash positions held with a counterparty not belonging to the ENEL Group amounted to Euros 186 million (31 December 2015: Euros 125 million).

– Interest-rate and exchange-rate derivatives are arranged with highly solvent entities, whereby at 31 December 2016, 62% of interest-rate and exchange-rate derivative exposures relate to transactions with entities with a credit rating of "A-" or higher (80% at year-end 2015). At 31 December, 2016, the greatest exposure by counterparty amounted to Euros 11 million (31 December 2015: Euros 12 million).

– Credit risk associated with financial instruments arranged on commodities is limited. At 31 December 2016, taking market values as a basis, exposure to commodity derivatives was less than Euros 83 million (Euros 38 million at 31 December 2015). The credit ratings of counterparties are monitored with ratings of specialist agencies or equivalent internal ratings, in accordance with market best practices.

– At 31 December, 2016, the maximum accumulated credit risk by counterparty arising from interest rate, exchange rate and commodities derivatives, totals Euros 43 million, and therefore no counterparties accumulate more than 36% of the total credit risk related to financial instruments (31 December 2015: Euros 21 million and 37% total, respectively).

At 31 December, 2016, there were guarantees, letters of guarantee, and pledges received for commercial transactions, as follows:

- Received from companies totalling Euros 5 million and (31 December 2015: Euros 3 million);
- Received from large companies totalling Euros 210 million (31 December 2015: Euros 228 million); and
- Commodity market counterparties totalling Euros 263 million (31 December 2015: Euros 303 million).

At 31 December 2016 and 2015, ENDESA had not pledged significant guarantees, letters of guarantee or pledges.

Due dates and impairment of financial assets

The breakdown of trade receivables for sales and services rendered by due dates and impairments is as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Impaired		**385**	**407**
Not due or impaired		**1,860**	**1,962**
Due and not impaired	(*)	**439**	**293**
Less than three months		310	188
Three to six months		63	58
Six to twelve months		24	22
Over twelve months		42	25
TOTAL	**12**	**2,684**	**2,662**

(*) Includes Euros 119 million receivable from Spanish public administrations (Euros 143 million at 31 December 2015).

Analysis of counterparty risk

The breakdown of the credit risk of financial instruments which are not due or impaired, and which are not trade receivables follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Cash and cash equivalents		**418**	**346**
A+		-	3
A		223	
A-		38	35
B+		17	16
BB+		9	43
BB		6	-
BB-		4	38
BBB+		45	39
BBB		52	14
BBB-		2	126
Counterparty without credit rating		22	32
Available-for-sale financial assets	**18.1.2**	**8**	**7**
BBB		3	-
Counterparty without credit rating		5	7
Hedging derivatives	**18.3**	**11**	**11**
A		11	-
A+		-	11
Non-financial derivatives	**12 and 18.3**	**264**	**228**
A		11	1
A+		1	1
A-		4	2
AA-		1	1
B		1	-
B-		-	1
B+		12	3
BB		8	3
BB-		1	3
BB+		4	6
BBB		116	185
BBB-		2	4
BBB+		85	9
Counterparty without credit rating		18	9
Financial assets (*)		**1,027**	**913**
Financing of the revenue shortfall from regulated activities in Spain	**18.1.1**	**273**	**155**
Compensation for generation overruns in non-mainland territories generation	**18.1.1**	**-**	**137**
Guarantees and deposits	**18.1.1**	**424**	**427**
Loans to employees	**18.1.1**	**31**	**31**
Loans to associates and joint ventures	**18.1.1**	**72**	**71**
Remuneration of the distribution activity	**18.1.1**	**70**	**14**
Other financial assets	**18.1.1**	**157**	**78**
TOTAL		**1,728**	**1,505**

(*) Mainly includes receivables from Public Administrations, as well as from counterparties without a credit rating.

19.6. Customer concentration risk

ENDESA is exposed to customer and supplier concentration risk in its activity.

Customer concentration risk is managed and minimised by a business strategy with several diversification criteria:

- Customer typology: Industrial customers, medium-sized companies and residential customers, both private individuals and public authorities;
- Economic activity of customers: Business with customers operating in different sectors, and
- Types of product sold: Electricity, natural gas and different products and value added services.

This strategy ensures that sales to a specific customer do not account for a major portion of ENDESA's economic results.

This risk is controlled by regular monitoring of trade receivable accounts (debts past-due and outstanding) for individuals and groups of companies under joint control.

In its relationships with its main shareholder, ENDESA is exposed to credit risk. In 2016, this risk is significant, is mainly the result of the potential change in commodities hedging contracts which ENDESA has arranged through the ENEL Group companies.

At 31 December 2016, receivables from the ten largest customers (business group) accounted for less than 11% of the total, although none of them individually accounted for more than 2.4% at that date (12% and 2%, respectively, at 31 December 2015).

ENDESA's current relationships with main industry service suppliers and providers are essential for the development and growth of its business, and may affect its capacity to negotiate contracts with these parties under favourable conditions. Nonetheless, ENDESA's technical and economic rating processes allow it to ensure the quality of services acquired as well as the supplier's financial status, and a diversified supplier portfolio in all its purchasing categories, thereby making it possible to replace one in the case of interrupted service, mitigating its supplier concentration risk. At 31 December 2016, its top 10 suppliers did not represent more than 27% of the total (25% of the total at 31 December 2015).

20. Other non-current liabilities

Details of this item at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Guarantee deposits	18.1.1	453	446
Non-financial Derivatives	18.3	12	59
Other payables		136	127
TOTAL	**18.2**	**601**	**632**

21. Deferred tax assets and liabilities

At 31 December 2016 and 2015, deferred taxes arose as a result of the following:

Million Euros

Deferred tax assets arising from	31 December 2016	31 December 2015
Depreciation and amortisation of assets	169	179
Provisions for pension funds and work force reduction plans	677	705
Other non-current provisions	266	178
Loss carryforwards	1	1
Unused tax credits	96	161
Other	15	62
TOTAL	**1,224**	**1,286**

Million Euros

Deferred tax liabilities arising from	31 December 2016	31 December 2015
Accelerated depreciation and amortisation of assets for tax purposes	652	681
Other	449	258
TOTAL	**1,101**	**939**

At 31 December 2016 and 2015, deferred taxes eligible for offset amounted to Euros 769 million and Euros 708 million, respectively. Of total deferred tax assets and deferred tax liabilities at 31 December 2016 and 2015, the following may not be set off:

Million Euros

	31 December 2016	31 December 2015
Deferred tax assets not eligible for offset	455	578
Deferred tax liabilities not eligible for offset	332	231

Movements in deferred tax assets and deferred tax liabilities on the consolidated statement of financial position is as follows:

Million Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Note 5)	(Debit) / credit Profit and loss (Note 31)	(Debit) / credit Equity (Note 31)	Transfers and other	Transfers to non-current assets held for sale (1)	Balance at 31 December 2016
Depreciation and amortisation of assets	179	15	(42)	-	17	-	169
Provisions for pension funds and work force reduction plans	705	1	(67)	47	(9)	-	677
Other non-current provisions	178	-	50	-	38	-	266
Loss carryforwards	1	-	-	-	-	-	1
Unused tax credits	161	17	(82)	-	-	-	96
Other	62	5	(7)	(6)	(38)	(1)	15
TOTAL	**1,286**	**38**	**(148)**	**41**	**8**	**(1)**	**1,224**

(1) Relates to the transfer to the "Deferred tax assets - Non-current assets held for sale and discontinued operations" heading of Energías de la Mancha Eneman, S.A. and Energía de la Loma, S.A. (see Notes 2.3.1 and 32).

Million Euros

	Balance at 31 December 2014	Inclusion/(exclusion) of companies	Debit / (credit) to profit and loss (Note 31) (1)	Debit / (credit) to equity (Note 31) (2)	Transfers and other	Transfers to non-current assets held for sale	Balance at 31 December 2015
Depreciation and amortisation of assets	177	-	(61)	-	63	-	179
Provisions for pension funds and work force reduction plans	754	-	10	(73)	14	-	705
Other non-current provisions	163	-	29	-	(14)	-	178
Loss carryforwards	-	-	-	-	1	-	1
Unused tax credits	141	-	20	-	-	-	161
Other	40	-	-	4	18	-	62
TOTAL	**1,275**	**-**	**(2)**	**(69)**	**82**	**-**	**1,286**

(1) The change to the rate of taxation in Spain in 2015 had an impact of Euros 14 million on the consolidated income statement, reducing the value of deferred assets (see Note 3o).
(2) The change to the rate of taxation in Spain in 2015 had an impact of Euros 7 million on the consolidated statement of other comprehensive income, increasing the value of deferred tax assets (see Note 3o).

Million Euros

	Balance at 31 December 2015	Inclusion/(exclusion) of companies (Note 5) (1)	(Debit) / credit Profit and loss (Note 31) (2)	(Debit) / credit Equity (Note 31)	Transfers and other	Transfers to liabilities associated with non-current assets classified as held for sale (3)	Balance at 31 December 2016
Accelerated depreciation and amortisation of assets for tax purposes	681	18	(10)	-	(37)	-	652
Other	258	218	(81)	20	(40)	(6)	449
TOTAL	**939**	**236**	**(91)**	**20**	**3**	**(6)**	**1,101**

(1) Includes deferred tax liabilities associated with the revaluation of the net assets acquired in the takeover of ENEL Green Power España, S.L.U. (EGPE) and the acquisition of Eléctrica del Ebro, S.A. (See Note 5).
(2) 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 Notes 5, 10.1 and 31).
(3) Relates to the transfer to the "Deferred tax assets - Liabilities associated with non-current assets classified as held for sale and discontinued operations" heading of Energías de la Mancha Eneman, S.A. and Energía de la Loma, S.A. (see Notes 2.3.1 and 32).

Million Euros

	Balance at 31 December 2014	Inclusion/(exclusion) of companies	Debit / (credit) Profit and loss (Note 31) (1)	Debit / (credit) to equity (Note 31) (2)	Transfers and other	Transfers to liabilities associated with non-current assets classified as held for sale	Balance at 31 December 2015
Accelerated depreciation and amortisation of assets for tax purposes	628	-	2	-	51	-	681
Other	245	11	(12)	(17)	31	-	258
TOTAL	**873**	**11**	**(10)**	**(17)**	**82**	**-**	**939**

(1) The change to the rate of taxation in Spain in 2015 had an impact of Euros 3 million on the consolidated income statement, reducing the value of the deferred tax liability (see Note 3o).
(2) The change to the rate of taxation in Spain in 2015 had an impact of Euros 3 million on the consolidated statement of other comprehensive income, increasing the value of deferred tax liabilities (see Note 3o).

The following is the estimated deferred tax assets and liabilities recognized on the consolidated statement of financial position at 31 December 2016 and 2015:

Million Euros

	31 December 2016	31 December 2015
Deferred tax assets	**1,224**	**1,286**
Realisable in one year	124	163
Realisable in over a year	1,100	1,123
Deferred tax liabilities	**1,101**	**939**
Realisable in one year	27	28
Realisable in over a year	1,074	911

Recovery of the deferred tax assets depends on the generation of sufficient taxable profits in the future. The Parent Company's directors consider that the projected taxable profits of the various ENDESA companies amply cover the amounts required to recover these assets.

At 31 December 2016 and 2015, there were deferred tax assets in respect of tax losses pending recognition amounting to Euros 2 million.

At 31 December 2016, there were no tax loss carryforwards from previous years liable to be offset by future profits in the amount of Euros 1 million (Euros 1 million at 31 December 2015).

Details of unused tax credits available for use against future profits at 31 December 2016 and 2015 and the final year they may be utilised are as follows:

Million Euros

Year	31 December 2016	31 December 2015
2018	-	-
2021	-	3
2022	-	3
2023	-	2
2024	-	2
2025	-	2
2026	-	7
2027	9	20
2028	24	23
2029	3	21
2030	10	28
2031	13	8
2032	6	6
2033 and no limit	31	36
TOTAL	**96**	**161**

22. Trade and other payables

Details of this item at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Financial liabilities	**18.2**	**4,960**	**4,497**
Suppliers and other payables		3,429	3,386
Non-financial derivatives	18.3	112	258
Dividend payable	14.1.9	744	424
Other payables		379	429
Generation overruns in non-mainland generation (TNP)	4 and 18.1.1	296	-
Tax liabilities		**850**	**736**
Current income tax		332	260
Value Added Tax (VAT) payable		37	32
Other taxes		481	444
TOTAL		**5,810**	**5,233**

At 31 December 2015, the Dividend payable heading includes the 2016 interim dividend authorised by the Board of Directors of ENDESA, S.A. on 22 November 2016, in the total amount of Euros 741 million (gross Euros 0.70 per share) (see Note 14.1.9), which was paid on 2 January 2017.

At 31 December 2015, the Dividend payable heading included the 2015 interim dividend authorised by the Board of Directors of ENDESA, S.A. on 21 December 2016, in the total amount of Euros 424 million (gross Euros 0.40 per share) (see Note 14.1.9), which was paid on 4 January 2016.

At 31 December 2016, the amount of commercial debt sent to financing entities for managing payments to suppliers (confirming), recognised under Trade and other payables, totalled Euros 263 million (31 December 2015: Euros 295 million). Finance income accrued by confirming contracts in 2016 totalled Euros 1 million (Euros 1 million in 2015).

22.1. Information on the Average Payment Period to Suppliers. Third additional provision. “Duty of disclosure” under Law 15/2010 of 5 July

The following are details of the degree of compliance by the Company with the statutory deadlines for payment to suppliers for commercial transaction under Law 15/2010, of 5 July:

Number of days

	2016	2015
Average payment period for suppliers	18	21
Ratio of transactions paid	19	20
Ratio of transactions pending payment	33	44

Million Euros

	2016	2015
Total payments made	14,780	15,200
Total payments pending	295	451

23. Current provisions

The breakdown of current provisions on the accompanying consolidated statement of financial position at 31 December 2016 and 2015 are as follows:

Million Euros

	Notes	31 December 2016	31 December 2015
Provisions for workforce restructuring costs		214	232
Workforce reduction plans	16.2.1	124	194
Contract suspension	16.2.2	90	38
Carbon dioxide emission allowances (CO_2)	11.1	190	240
Other current provisions		163	166
TOTAL		**567**	**638**

24. Income

During 2016 and 2015, the breakdown of income on the consolidated income statement is as follows:

Million Euros

	2016	2015
Revenue	18,313	19,281
Other operating revenues	666	1,018
TOTAL	**18,979**	**20,299**

24.1. Revenue

During 2016 and 2015, the breakdown of revenue on the consolidated income statement is as follows:

Million Euros

	2016	2015
Revenues from power sales:	13,541	14,168
Sales to the deregulated market	8,213	8,425
Supply to customers in deregulated markets outside Spain	961	987
Sales at regulated prices	2,412	2,885
Wholesale market sales	875	815
Non-mainland compensation	1,015	1,044
Other electricity sales	65	12
Gas sales	2,079	2,378
Regulated revenue from electricity distribution	2,054	2,048
Other sales and rendering of services	639	687
TOTAL	**18,313**	**19,281**

Sales to external customers in the main geographical areas in which the Group operates are as follows:

Million Euros

	2016	2015
Spain	16,645	17,569
Portugal	856	865
France	354	288
Germany	178	162
United Kingdom	7	51
Holland	63	44
Other	210	302
TOTAL	**18,313**	**19,281**

24.2. Other operating revenues

Details of other operating income in 2016 and 2015 are as follows:

Million Euros	2016	2015
Changes in fuel stock derivatives	324	614
Grants released to income	176	170
Rendering of services at plants	8	6
Other	158	228
TOTAL	**666**	**1,018**

The "Changes in energy derivatives" heading in 2015 included the profit of Euros 184 million arising from the forward sale on 17 December 2015 relating to European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) as per EU Regulation 389/2013, articles 58-61 8 (see Note 11.1).

25. Procurements and services

25.1. Purchases of energy and fuel consumed

The detail of this heading on the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Million Euros	2016	2015
Electricity	2,617	3,069
Fuel stocks	3,089	3,849
Coal	721	1,028
Nuclear fuel	140	140
Fuel Oil	631	786
Gas	1,597	1,895
Other fuels	2	-
TOTAL	**5,708**	**6,918**

25.2. Other variable procurements and services

The detail of this item in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Million Euros	Notes	2016	2015
Changes in fuel stock derivatives		270	445
Environmental fees and taxes		498	628
Carbon dioxide emission allowances (CO_2)	11	188	241
Street lighting / works licences		188	198
Treatment of radioactive waste		179	178
Other variable costs		483	429
TOTAL		**1,806**	**2,119**

26. Personnel expenses.

The detail of this item in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Million Euros	Notes	2016	2015
Wages and salaries		674	697
Contributions to pension schemes	16.1	56	48
Provisions for workforce restructuring costs		209	356
Provisions for workforce reduction plans	16.2.1	2	(35)
Provisions for contract suspensions	16.2.2	207	391
Other personnel expenses/employee benefits expense		189	231
TOTAL		**1,128**	**1,332**

27. Other fixed operating expenses

The detail of this item in the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Million Euros

	Notes	2016	2015
Repairs and maintenance		357	360
Insurance premiums		58	57
Independent professional services and external services		58	46
Leases and levies	6.1	43	36
Taxes other than income tax		106	95
Travel expenses		20	19
Other Fixed Operating Expenses		567	599
TOTAL		**1,209**	**1,212**

28. Depreciation and amortisation, and impairment losses

During 2016 and 2015, the breakdown of sales on the consolidated income statement is as follows:

Million Euros

	Notes	2016	2015
Provision for the depreciation of property, plant and equipment	6	1,208	1,160
Impairment of property, plant and equipment and investment property	6 and 7	22	53
Provision for amortisation of intangible assets	8	138	97
Provision for impairment losses on intangible assets	8	(5)	(3)
Provisions for bad debts and other	12 and 18.4.1	104	134
TOTAL		**1,467**	**1,441**

29. Net financial profit/(loss)

The breakdown of net financial profit/(loss) on the consolidated income statement for 2016 and 2015 is as follows:

Million Euros

	Notes	2016	2015
Financial Income		**36**	**36**
Cash and cash equivalents		1	2
Other financial assets		13	1
Other finance income		22	33
Financial expenses		**(219)**	**(213)**
Debt	18.4.2	(133)	(165)
Provisions	16.2.1, 16.2.2 and 16.3	(70)	(24)
Capitalised finance costs	3a.1 and 3i.1	9	8
Post-employment obligations expense	16.1	(21)	(24)
Other financial expenses		(4)	(8)
Gains/(losses) on derivative financial instruments		**8**	**19**
Income from cash flow hedges		-	-
Income from derivatives at fair value with changes in profit/loss		4	12
Income from fair value hedging derivatives		3	4
Income from the measurement of financial instruments at fair value		1	3
Finance costs on derivative financial instruments		**(3)**	**(16)**
Cash flow hedge expenses		(2)	(6)
Expenses from derivatives at fair value with changes in profit/loss		-	(7)
Expenses for fair value hedging derivatives		(1)	(3)
Expenses from the measurement of financial instruments at fair value		-	-
Exchange gains/(losses)		**(4)**	**(12)**
Gains		28	79
Losses		(32)	(91)
Net financial gain/(loss)		**(182)**	**(186)**

30. Gains/(losses) on disposal of assets

Gains/(losses) on disposal of assets in 2016 amounted to Euros 16 million. A number of factoring transactions were carried out during the year, at a cost of Euros 25 million (see Note 12). Sales of company investments made in 2016 did not generate any material result (see Notes 2.3.1 and 2.4).

The sale of assets in 2015 generated losses of Euros 5 million, as follows:

Million Euros

	Notes	2015
At 31 December 2014, the assets and ownership interest recognised under Non-current assets held for sale and discontinued operations were:	32	10
Sale of assets at the Chira-Soria hydroelectric power plant (Gran Canaria)		7
Sale of Compañía Transportista de Gas Canarias, S.A.	2.4	3
Sale of Ayesa Advanced Technologies, S.A.	2.4	1
Cost of factoring transactions	12	(23)
Other transactions not significant on an individual basis		7
TOTAL		**(5)**

31. Income tax

A breakdown of the income tax expense heading on the consolidated income statement in 2016 and 2015 is as follows:

Million Euros

	Notes	2016	2015
Current income tax for the year		237	294
Deferred income tax for the year	21	57	(19)
Adjustment of prior years		13	14
Income tax provisions		(9)	1
Tax rate adjustment (Law 27/2014 of 27 November)	30	-	11
TOTAL		**298**	**301**

In 2016, following the takeover of ENEL Green Power, S.L.U. (EGPE) (see Notes 5, 10.1 and 21), 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.

Reconciliation between accounting profit and income tax expense

The 2016 and 2015 reconciliation of the accounting profit (loss) from continuing activities to the income tax expense was as follows:

Million Euros

	Notes	2016					
		Profit and loss	Rate (%)	Income and expenses directly recognised in equity	Rate (%)	Total	Rate (%)
Accounting profit after income tax		**1,412**		**(91)**		**1,321**	
Income tax expense		298		(21)		277	
Accounting profit before tax		**1,710**		**(112)**		**1,598**	
Theoretical tax		**427**	**25.0**	**(28)**	**(25.0)**	**399**	**25.0**
Permanent differences		**(80)**		**7**		**(73)**	
Effect net results equity Method		(76)	(4.5)	(1)	(0.9)	(77)	(4.8)
Unrecognised tax losses Carrying amount		1	0.1	-	-	1	0.1
Tax credit from the Canary Islands investment reserve (CIR)		7	0.4	-	-	7	0.4
Non-deductible provisions		(4)	(0.2)	-	-	(4)	(0.3)
Consolidation adjustments and others		(8)	(0.5)	8	7.1	-	-
Tax credits taken to profit and loss		**(34)**	**(2.0)**	**-**	**-**	**(34)**	**(2.1)**
Prior years' adjustments and other deferred taxes		**(19)**	**(1.1)**	**-**		**(19)**	**(1.2)**
Tax impact in the year		**294**	**17.2**	**(21)**	**(18.8)**	**273**	**17.1**

Million Euros

	Notes	2015					
		Profit and loss	Rate (%)	Income and expenses directly recognised in equity	Rate (%)	Total	Rate (%)
Accounting profit after income tax		**1,090**		**200**		**1,290**	
Income tax expense		301		52		353	
Accounting profit before tax		**1,391**		**252**		**1,643**	
Theoretical tax		**389**	**28.0**	**71**	**28.0**	**460**	**28.0**
Permanent differences		**(50)**		**(15)**		**(65)**	
Effect net results equity method		4	-	(5)	(1.9)	(1)	-
Unrecognised tax losses Carrying amount		1	-	-	-	1	-
Tax credit from the Canary Islands investment reserve (CIR)		(18)	(1.3)	-	-	(18)	(1.1)
Non-deductible provisions		(14)	(1.0)	-	-	(14)	(0.9)
Consolidation adjustments and others		(23)	(1.7)	(10)	(3.9)	(33)	(2.0)
Tax credits taken to profit and loss		**(44)**	**(3.2)**	**-**	**-**	**(44)**	**(2.7)**
Prior years' adjustments and other deferred taxes		**(20)**		**-**		**(20)**	**(1.2)**
Tax rate adjustment (Law 27/2014 of 27 November)	**3o and 21**	**11**	**0.8**	**(4)**	**(1.6)**	**7**	**0.4**
Tax impact in the year		**286**	**20.6**	**52**	**20.6**	**338**	**20.6**

Reconciliation of net tax

The 2016 and 2015 reconciliation of the income tax expense to the net tax from continuing activities was as follows:

Million Euros

	Notes	2016		
		Profit and loss	Income and expenses directly recognised in equity	Total
Tax impact in the year		**294**	**(21)**	**273**
Change in deferred tax	21	(57)	21	(36)
Tax rate adjustment (Law 27/2014 of 27 November)	3o and 21	-	-	-
Net income of continuing operations		**237**	**-**	**237**

Million Euros

	Notes	2015		
		Profit and loss	Income and expenses directly recognised in equity	Total
Tax impact in the year		**286**	**52**	**338**
Change in deferred tax	21	19	(56)	(37)
Tax rate adjustment (Law 27/2014 of 27 November)	3o and 21	(11)	4	(7)
Net income of continuing operations		**294**	**-**	**294**

Details of the income tax expense

The breakdown of the income tax expense for 2016 and 2015 is as follows:

Million Euros

	Notes	2016		
		Current tax	Change in deferred taxes (Note 21)	Total
Recognition in profit and loss, of which:		**237**	**57**	**294**
Net income of continuing operations		237	-	237
Deferred taxes		-	57	57
Depreciation and amortisation of property, plant and equipment and intangible assets		-	42	42
Provisions for pension funds and workforce reduction plans		-	67	67
Other provisions		-	(50)	(50)
Tax loss carryforwards		-	-	-
Unused tax credits		-	82	82
Accelerated depreciation and amortisation of assets for tax purposes		-	(10)	(10)
Other		-	(74)	(74)
Recognition in equity, of which:		**-**	**(21)**	**(21)**
Provisions for pension funds and work force reduction plans		-	(47)	(47)
Other		-	26	26
Tax rate adjustment (Law 27/2014 of 27 November)	3o	**-**	**-**	**-**
Tax impact in the year		**237**	**36**	**273**

Million Euros

	Notes	2015		
		Current tax	Change in deferred taxes (Note 21)	Total
Recognition in profit and loss, of which:		**294**	**(19)**	**275**
Net income of continuing operations		294	-	294
Deferred taxes		-	(19)	(19)
Depreciation and amortisation of property, plant and equipment and intangible assets		-	61	61
Provisions for pension funds and workforce reduction plans		-	(21)	(21)
Other provisions		-	(33)	(33)
Tax loss carryforwards		-	-	-
Unused tax credits		-	(20)	(20)
Accelerated depreciation and amortisation of assets for tax purposes		-	4	4
Other		-	(10)	(10)
Recognition in equity, of which:		**-**	**56**	**56**
Provisions for pension funds and work force reduction plans		-	80	80
Other		-	(24)	(24)
Tax rate adjustment (Law 27/2014 of 27 November)	3ñ	**-**	**7**	**7**
Tax impact in the year		**294**	**44**	**338**

The Canary Islands investment reserve (CIR) grants Corporation Tax taxpayers the right to a reduction in the taxable income on their establishment in the Canary Islands, which use their profits in certain investments, with the limits and requirements set forth in Law 19/1994, of 6 July, modifying the Canary Islands economic and tax regime as regards its regulation and implementation.

Tax deductions from income tax payable in 2016 totalled Euros 34 million and include Euros 19 million due to the rebates related to the production of movable tangible property in the Canary Islands (2015: Euros 24 million), and Euros 10 million for deductions on the investments in fixed assets there (2015: Euros 11 million).

32. Non-current assets held for sale and discontinued operations

At 31 December 2015, "Non-current assets held for sale and discontinued operations" included the indirect investment in Compostilla Re, S.A., through ENEL Insurance, N.V., in accordance with the agreement entered into on 19 October, 2015 to initiate the plan to sell off the investment. On 24 May 2016, this investment was sold and the price agreed for the transaction was Euros 114 million (see Notes 2.5 and 10.1).

As a result of the commencement in 2016 of a sales plan for the investments held in the subsidiaries Energías de la Mancha Eneman, S.A. and Energía de la Loma, S.A., in 2016, the amounts relating to these companies were transferred to "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations", respectively. This sale culminated on 29 December 2016 through the signing of the agreement with ENCE Energía y Celulosas, S.A. for the sale of investments in these companies, with a final sale price amounted to Euros 25 million (see Note 2.3.1). The amount generated from this sale was not significant.

33. Segment information

33.1. Basis of segmentation

In carrying out its business activities, ENDESA's organisation prioritises its core business of electricity and gas generation, distribution, and sale as well as related services. Therefore, the financial information analysed by the Company for the purposes of taking its decisions is the Segment information, which includes:

- Generation, together with Supply;
- Distribution;
- Structure, including the balances and transactions of holding companies and financing companies; and
- Consolidation Adjustments and Eliminations, including the inter-segment consolidation eliminations and adjustments.

The corporate organisation of ENDESA essentially matches these Segments. Therefore, the allocation established in the Segment reporting presented below is based on the financial information of the companies making up each Segment.

Transactions between Segments form part of normal business activities in terms of their purpose and terms and conditions.

External customers did not represent 10% or more of the income of any ENDESA segment in 2016 and 2015.

33.2. Segment information

Segment information in the consolidated income statements for 2016 and 2015 and consolidated statements of cash flows at 31 December 2016 and 2015, together with the consolidated statements of financial position for the years ended 31 December 2016 and 2015 is as follows:

Segment Information: 2016 Consolidated income statement and Statement of financial position at 31 December 2016

Million Euros

	2016				
	Generation and supply (1)	Distribution (2)	Structure	Consolidated adjustments and eliminations	Total
INCOME	**16,628**	**2,538**	**342**	**(529)**	**18,979**
Revenue	16,190	2,268	252	(397)	18,313
Other operating revenues	438	270	90	(132)	666
PROCUREMENTS AND SERVICES	**(13,284)**	**(139)**	**(141)**	**237**	**(13,327)**
Fuel stock purchases	(4,055)	(1)	-	-	(4,056)
Cost of fuel consumed	(1,652)	-	-	-	(1,652)
Transport costs	(5,812)	-	-	(1)	(5,813)
Other variable procurements and Services	(1,765)	(138)	(141)	238	(1,806)
CONTRIBUTION MARGIN	**3,344**	**2,399**	**201**	**(292)**	**5,652**
Self-constructed assets	8	106	3	-	117
Personnel expenses	(544)	(321)	(263)	-	(1,128)
Other fixed operating expenses	(958)	(396)	(116)	261	(1,209)
GROSS OPERATING PROFIT	**1,850**	**1,788**	**(175)**	**(31)**	**3,432**
Depreciation and amortisation and impairment losses	(785)	(657)	(24)	(1)	(1,467)
PROFIT FROM OPERATIONS	**1,065**	**1,131**	**(199)**	**(32)**	**1,965**
NET FINANCIAL PROFIT/(LOSS)	**(154)**	**(123)**	**95**	**-**	**(182)**
Financial income	45	4	306	(311)	44
Financial expense	(194)	(127)	(212)	311	(222)
Net exchange differences	(5)	-	1	-	(4)
Net profit/(loss) of companies accounted for using the equity method (3)	(68)	3	6	-	(59)
Gains/(Losses) from Other Investments	(1)	2	1,593	(1,592)	2
Gains/(losses) on disposal of assets	(20)	7	-	(3)	(16)
PROFIT/(LOSS) BEFORE TAX	**822**	**1,020**	**1,495**	**(1,627)**	**1,710**
Income Tax Expense	(70)	(249)	26	(5)	(298)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS	**752**	**771**	**1,521**	**(1,632)**	**1,412**
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS	**-**	**-**	**-**	**-**	**-**
PROFIT FOR THE YEAR	**752**	**771**	**1,521**	**(1,632)**	**1,412**
Parent Company	751	771	1,522	(1,632)	1,411
Non-controlling interests	1	-	(1)	1	1

(1) Includes results generated by ENEL Green Power España, S.L.U. (EGPE) since the date of the takeover, 27 July 2016 (see Notes 5 and 10.1). Net impairment losses of Euros 94 million are also included, corresponding to reversals of impairment of property, plant, and equipment in the amount of Euros 7 million (see Note 6), and Euros 101 million in reversals due to the impairment of trade bad debts (see Note 12).

(2) Includes net impairment losses amounting to Euros 27 million, corresponding to the impairment of property, plant and equipment in the amount of Euros 29 million (see Note 6), Euros 5 million to reversals from the impairment of intangible assets (see Note 8), and Euros 3 million related to impairment provisions arising from commercial insolvencies (see Note 12).

(3) Includes the recognition of an impairment loss of Euros 72 million (see Notes 5 and 10.1).

Million Euros

	At 31 December 2016				
	Generation and supply	Distribution	Structure	Consolidated adjustments and eliminations	Total
ASSETS	**-**	**-**	**-**	**-**	**-**
Non-current assets	**13,566**	**12,922**	**25,421**	**(26,380)**	**25,529**
Property, plant and equipment	10,073	11,809	11	(2)	21,891
Investment property	-	3	17	-	20
Intangible assets	901	150	121	-	1,172
Goodwill	298	2	-	-	300
Investments in companies accounted for using the equity method	186	22	-	-	208
Non-current financial assets	1,480	528	25,105	(26,399)	714
Deferred tax assets	628	408	167	21	1,224
Current assets	**4,080**	**1,219**	**2,726**	**(2,590)**	**5,435**
Inventories	1,154	48	-	-	1,202
Trade and other receivables	2,680	888	1,135	(1,251)	3,452
Current financial assets	68	276	1,358	(1,339)	363
Cash and cash equivalents	178	7	233	-	418
Non-current assets held for sale and discontinued operations	-	-	-	-	-
TOTAL ASSETS	**17,646**	**14,141**	**28,147**	**(28,970)**	**30,964**
EQUITY AND LIABILITIES					
Equity	**4,858**	**1,619**	**17,423**	**(14,812)**	**9,088**
Parent	4,725	1,615	17,425	(14,813)	8,952
Non-controlling interests	133	4	(2)	1	136
Non-current liabilities	**8,015**	**10,467**	**7,454**	**(11,581)**	**14,355**
Deferred income	50	4,689	-	(27)	4,712
Non-current provisions	2,071	1,135	406	106	3,718
Non-current financial debt	5,028	3,862	6,986	(11,653)	4,223
Other non-current liabilities	166	434	10	(9)	601
Deferred tax liabilities	700	347	52	2	1,101
Current liabilities	**4,773**	**2,055**	**3,270**	**(2,577)**	**7,521**
Current financial debt	429	5	2,048	(1,338)	1,144
Current provisions	440	69	58	-	567
Trade payables and other current liabilities	3,904	1,981	1,164	(1,239)	5,810
Liabilities associated with non-current assets classified as held for sale and discontinued operations	-	-	-	-	-
TOTAL EQUITY AND LIABILITIES	**17,646**	**14,141**	**28,147**	**(28,970)**	**30,964**

Segment Information: 2015 Consolidated income statement and Statement of financial position at 31 December 2015

Million Euros

	2015				
	Generation and supply (1)	Distribution (2)	Structure (3)	Consolidated adjustments and eliminations	Total
INCOME	**17,911**	**2,582**	**534**	**(728)**	**20,299**
Revenue	17,166	2,264	298	(447)	19,281
Other operating revenues	745	318	236	(281)	1,018
PROCUREMENTS AND SERVICES	**(14,798)**	**(137)**	**(269)**	**386**	**(14,818)**
Fuel stock purchases	(4,799)	-	-	4	(4,795)
Cost of fuel consumed	(2,123)	-	-	-	(2,123)
Transport costs	(5,779)	-	-	(2)	(5,781)
Other variable procurements and services	(2,097)	(137)	(269)	384	(2,119)
CONTRIBUTION MARGIN	**3,113**	**2,445**	**265**	**(342)**	**5,481**
Self-constructed assets	5	97	-	-	102
Personnel expenses	(549)	(555)	(234)	6	(1,332)
Other fixed operating expenses	(999)	(418)	(165)	370	(1,212)
GROSS OPERATING PROFIT	**1,570**	**1,569**	**(134)**	**34**	**3,039**
Depreciation and impairment losses	(756)	(663)	(25)	3	(1,441)
PROFIT FROM OPERATIONS	**814**	**906**	**(159)**	**37**	**1,598**
NET FINANCIAL PROFIT/(LOSS)	**(157)**	**(129)**	**99**	**1**	**(186)**
Financial income	37	10	335	(327)	55
Financial expense	(182)	(139)	(237)	329	(229)
Net exchange differences	(12)	-	1	(1)	(12)
Net profit/(loss) of companies accounted for using the equity method	(23)	2	5	1	(15)
Gains/(Losses) from Other Investments	(1)	2	1,382	(1,384)	(1)
Gains/(losses) on disposal of assets	(10)	5	(1)	1	(5)
PROFIT/(LOSS) BEFORE TAX	**623**	**786**	**1,326**	**(1,344)**	**1,391**
Income tax expense	(117)	(201)	18	(1)	(301)
PROFIT/(LOSS) AFTER TAX FOR THE YEAR FROM CONTINUING OPERATIONS	**506**	**585**	**1,344**	**(1,345)**	**1,090**
PROFIT AFTER TAX FOR THE YEAR FROM DISCONTINUED OPERATIONS	**-**	**-**	**-**	**-**	**-**
PROFIT FOR THE YEAR	**506**	**585**	**1,344**	**(1,345)**	**1,090**
Parent Company	506	581	1,344	(1,345)	1,086
Non-controlling interests	-	4	-	-	4

(1) Includes net impairment losses amounting to Euros 156 million, corresponding to the impairment of property, plant and equipment in the amount of Euros 46 million (see Note 6), Euros 2 million to reversals from the impairment of intangible assets (see Note 8), and Euros 112 million related to impairment provisions arising from commercial insolvencies (see Note 12).
(2) Net impairment losses of Euros 28 million are included, corresponding to provisions for the impairment of property, plant, and equipment in the amount of Euros 7 million (see Note 6), 1 million in reversals due to the impairment of intangible assets (see Note 8), and 22 million related to the impairment of commercial insolvencies (see Note 12).
(3) In 2015, no net impairment was recognised.

Million Euros

	At 31 December 2015				
	Generation and Supply	Distribution	Structure	Consolidated adjustments and eliminations	Total
ASSETS					
Non-current assets	**11,442**	**12,905**	**25,547**	**(25,628)**	**24,266**
Property, plant and equipment	9,004	11,803	11	(3)	20,815
Investment property	-	3	49	(31)	21
Intangible assets	190	125	113	-	428
Goodwill	-	-	-	-	-
Investments in companies accounted for using the equity method	1,003	21	63	-	1,087
Non-current financial assets	586	514	25,151	(25,622)	629
Deferred tax assets	659	439	160	28	1,286
Current assets	**4,104**	**1,021**	**833**	**(979)**	**4,979**
Inventories	1,226	36	-	-	1,262
Trade and other receivables	2,495	826	444	(788)	2,977
Current financial assets	182	156	206	(191)	353
Cash and cash equivalents	201	3	142	-	346
Non-current assets held for sale and discontinued operations	-	-	41	-	41
TOTAL ASSETS	**15,546**	**13,926**	**26,380**	**(26,607)**	**29,245**
EQUITY AND LIABILITIES					
Equity	**4,650**	**1,651**	**17,570**	**(14,832)**	**9,039**
Parent	4,650	1,647	17,571	(14,832)	9,036
Non-controlling interests	-	4	(1)	-	3
Non-current liabilities	**7,101**	**10,205**	**7,302**	**(10,273)**	**14,335**
Deferred income	45	4,666	-	(32)	4,679
Non-current provisions	1,882	1,089	329	105	3,405
Non-current financial debt	4,444	3,671	6,910	(10,345)	4,680
Other non-current liabilities	193	433	6	-	632
Deferred tax liabilities	537	346	57	(1)	939
Current liabilities	**3,795**	**2,070**	**1,508**	**(1,502)**	**5,871**
Current financial debt	49	4	645	(698)	-
Current provisions	496	76	94	(28)	638
Trade payables and other current liabilities	3,250	1,990	769	(776)	5,233
Liabilities associated with non-current assets classified as held for sale and discontinued operations	-	-	-	-	-
TOTAL EQUITY AND LIABILITIES	**15,546**	**13,926**	**26,380**	**(26,607)**	**29,245**

Segment Information: 2016 Consolidated statement of cash flows

Million Euros

Statement of cash flows	2016			
	Generation and Supply	Distribution	Structure, services and adjustments	TOTAL
Net cash flows from operating activities	1,738	1,011	246	2,995
Net Cash Flows used in investing activities	(2,268)	(477)	428	(2,317)
Net Cash Flows used in financing activities	506	(531)	(581)	(606)

Segment Information: 2015 Consolidated statement of cash flows

Million Euros

Statement of cash flows	2015			
	Generation and Supply	Distribution	Structure, services and adjustments	TOTAL
Net cash flows from operating activities	1,487	1,226	(57)	2,656
Net Cash Flows used in investing activities	(427)	(355)	9	(773)
Net Cash Flows used in financing activities	(1,037)	(869)	(279)	(2,185)

34. Related-party balances and transactions

Related parties are parties over which ENDESA, directly or indirectly via one or more intermediate companies, exercises control or joint control or has significant influence, or which are key members of the ENDESA management team.

Key members of the ENDESA management team are those with the authority and responsibility to plan, direct and control ENDESA's business either directly or indirectly, including any member of the Board.

Transactions between the Company and its Subsidiaries and Joint Operation Entities, which are related parties, form part of the Company's normal business activities (in terms of their purpose and conditions) and have been eliminated on consolidation. Therefore, they are not disclosed in this Note.

For information purposes, all companies comprising the ENEL Group and not included in ENDESA's Consolidated Financial Statements were considered significant shareholders.

In 2016, the amount of transactions carried out with other related parties of certain members of the Board of Directors, does not exceed Euros 12 million combined (Euros 5 million in 2015). These transactions correspond to the Company's normal business activities, carried out in all cases under normal market conditions.

All transactions with related parties are at arm's length.

34.1. Expenses and income and other transactions

Noteworthy balances and transactions carried out with related parties in 2016 and 2015, all of which were on an arm's length basis, are as follows:

34.1.1. Expenses and income

Million Euros

	2016				
	Significant shareholders	Directors and executives (Note 34.4)	ENDESA employees, companies or entities	Other related parties	Total
Finance expense	93	-	-	-	93
Management or cooperation agreements	42	-	-	-	42
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	156	-	-	9	165
Purchase of finished goods and work in progress	188	-	-	-	188
Valuation adjustments for uncollectible or doubtful debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	189	-	-	-	189
TOTAL EXPENSES	**668**	**-**	**-**	**9**	**677**
Finance income	-	-	-	-	-
Management or cooperation agreements	6	-	-	-	6
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	5	-	-	-	5
Rendering of services	9	-	-	2	11
Sale of finished goods and work in progress	68	-	-	-	68
Gains on derecognition or disposal of assets	-	-	-	-	-
Other income(*)	102	-	-	-	102
TOTAL INCOME	**190**	**-**	**-**	**2**	**192**

(*) Includes Euros 29 million recognised in Other Comprehensive Income.

Million Euros

	2015				
	Significant shareholders	Directors and executives (Note 34.4)	ENDESA employees, companies or entities	Other related parties	Total
Finance expense	126	-	-	-	126
Management or cooperation agreements	3	-	-	-	3
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	175	-	-	4	179
Purchase of finished goods and work in progress	256	-	-	-	256
Valuation adjustments for uncollectible or doubtful debts	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses(*)	442	-	-	-	442
TOTAL EXPENSES	**1,002**	**-**	**-**	**4**	**1,006**
Finance income	5	-	-	-	5
Management or cooperation agreements	10	-	-	-	10
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	6	-	-	-	6
Rendering of services	5	-	-	1	6
Sale of finished goods and work in progress	157	-	-	-	157
Gains on derecognition or disposal of assets	-	-	-	-	-
Other income	409	-	-	-	409
TOTAL INCOME	**592**	**-**	**-**	**1**	**593**

(*) Includes Euros 12 million recognised in Other Comprehensive Income.

The main transactions with related parties included in “Other Expenses” in 2016 relate to:

- Decreases in the fair value of derivative financial instruments for electricity and other energy products of Euros 54 million (Euros 386 million in 2015);

- Net loss of Euros 69 million contributed as a result of the holding of 40% in ENEL Green Power España, S.L.U. (EGPE) accounted for using the equity method until its takeover date (see Notes 5 and 10.1); and

- Energy purchases totalling Euros 66 million (Euros 56 million in 2015).

The main transactions with related parties included in “Other income” in 2016 relate to:

- Increases in the fair value of derivative financial instruments for electricity and other energy products of Euros 94 million (Euros 393 million in 2015);

- Profit of Euros 6 million contributed by ENEL Insurance, N.V. until the sale date (see Note 10.2), which is accounted for in ENDESA's Consolidated Financial Statements using the equity method (in 2015 it included the profit contributed by ENEL Green Power España, S.L.U. (EGPE), ENEL Insurance, N.V. and Compostilla Re, S.A. in which ENDESA owned 40%, 50% and 50%, respectively, amounting to Euros 15 million); and

- Other energy sale income totalling Euros 2 million (Euros 1 million in 2015).

34.1.2. Other transactions

Million Euros

	2016				
	Significant shareholders	Directors and executives (Note 34.4)	ENDESA employees, companies or entities	Other related parties	Total
Continuing operations	**-**	**-**	**-**	**-**	**-**
Purchase of property, plant and equipment, intangible assets or other assets Assets	224	-	-	-	224
Financing agreements (Lender)	-	-	-	-	-
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets or other assets assets	-	-	-	-	-
Financing agreements (Borrower)	3,000	-	-	-	3,000
Finance leases (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	200	-	-	-	200
Guarantees provided	-	7	-	-	7
Guarantees received	130	-	-	-	130
Commitments acquired	133	-	-	-	133
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other distributions	761	-	-	-	761
Other transactions	-	-	-	-	-

Million Euros

	2015				
	Significant shareholders	**Directors and executives (Note 34.4)**	**ENDESA employees, companies or entities**	**Other related parties**	**Total**
Continuing operations	-	-	-	-	-
Purchase of property, plant and equipment, intangible assets or other assets	416	-	-	-	416
Financing agreements (Lender)	-	-	-	-	-
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets or other assets	-	-	-	-	-
Financing agreements (Borrower)	3,200	-	-	-	3,200
Finance leases (lessee)	-	-	-	-	-
Repayment or cancellation of loans and lease agreements (lessor)	1,500	-	-	-	1,500
Guarantees provided	-	7	-	-	7
Guarantees received	126	-	-	-	126
Commitments acquired	299	-	-	-	299
Commitments/guarantees cancelled	-	-	-	-	-
Dividends and other distributions	564	-	-	-	564
Other transactions	-	-	-	-	-

At 31 December 2016 and 2015, “Financing Agreements – Borrower” included the outstanding balance on the inter-company loan with ENEL Finance International, N.V. of Euros 3,000 million (see Note 17.2).

At 31 December 2015, the heading “Financing agreements - borrower” included the uncommitted line of credit with ENEL Finance International, N.V. of Euros 1,500 million, which at that date, had been drawn down in the amount of Euros 200 million. The cost of borrowing applied to these facilities relates to the issuance costs of ENEL commercial paper plus a margin of six basis points, and, in cases where such a benchmark is not available, to the ENEL 1-year curve yield adjusted by a defined formula up to the specific maturity date of the required loan. At 31 December 2016 that uncommitted credit line was not drawn down.

At 31 December 2016 and 2015, ENDESA, S.A. had an intercompany credit line with ENEL Finance International, N.V., of Euros 1,000 million. At 31 December 2016 and 2015, no amount had been drawn down (see Note 17.2).

At 31 December 2016 and 2015, “Guarantees received” included the guarantee received from ENEL, S.p.A. by ENDESA of USD 137 million (approximately Euros 130 million and Euros 126 million, respectively) for compliance with agreements signed by ENDESA with Corpus Christi Liquefaction, LLC for the acquisition of liquefied natural gas (LNG) (see Note 11.2).

At 31 December 2016, “Commitments acquired” with significant shareholders mainly included the commitment to acquire smart meters for Euros 115 million (see Note 6.1) and the commitment to acquire inventories of (CO_2) emission allowances for Euros 18 million (see Note 11.1) (Euros 237 million and Euros 62 million, respectively, at 31 December 2015).

"Dividends and other distributions" included dividends paid to ENEL Iberoamérica, S.L.U. in both periods (see Note 14.1.9).

During 2016 and 2015, the joint directors, or persons acting on their behalf, have not carried out transactions with the Company (or its other subsidiaries) that do not correspond to the normal course of business or were not carried out in keeping with prevailing market conditions.

34.1.3. Other information

Balances at 31 December 2016 and 2015 with significant shareholders are as follows:

Million Euros

	Note	31 December 2016	% of Consolidated statement of financial position	31 December 2015	% of Consolidated statement of financial position
Non-current financial assets		30	5	44	7
Trade receivables	12	396	13	209	8
Current income tax assets		366	92	188	90
Cash and cash equivalents		-	-	-	-
ASSETS		**792**	**3**	**441**	**2**
Non-current interest-bearing loans and borrowings		3,006	71	3,201	68
Other non-current liabilities		8	1	51	8
Current interest-bearing loans and borrowings		-	-	-	-
Suppliers and other payables		971	18	968	19
Current income tax liabilities		317	95	259	100
LIABILITIES		**4,302**	**14**	**4,479**	**15**

34.2. Associates and joint ventures

The following are the details at 31 December 2016 and 31 December 2015 of trade receivables for sales and services, loans and guarantees to associates and joint ventures:

Million Euros

	Notes	Associates		Joint ventures	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade receivables	12	3	2	-	-
Credits	18.1.1	68	60	4	12
Guarantees issued		-	-	-	-

Transactions during 2016 and 2015 with associates, joint ventures and joint operations not eliminated in the consolidation process were as follows:

Million Euros

	Associates		Joint ventures		Joint Operations	
	2016	2015	2016	2015	2016	2015
Revenue	-	5	1	1	-	-
Expenses	1	4	23	17	49	39

34.3. Pension schemes

At 31 December 2016 and 2015, there were no amounts drawn down on ENDESA's pension plans for the Rebalancing Plans.

34.4. Directors and Senior Management Personnel

34.4.1. Remuneration of the Board of Directors

Article 41 of the corporate bylaws states that "*the remuneration of the Directors will comprise the following items: a fixed monthly salary and per diems for attendance at each meeting of the company's management bodies and their committees*.

Maximum global and annual compensation, for the Board as a whole and including all aforementioned items, shall be established by the General Shareholders' Meeting and will remain in effect until it resolves upon an amendment thereof.

The Board itself shall be in charge of determining the exact amount to be paid in each fiscal year, subject to the limits set forth by the General Shareholders' Meeting, as well as distributing such amount between the aforementioned items and between the directors in the manner, time and proportion as freely determined, taking into account the functions and responsibilities entrusted to each Director, whether they belong to any of the Board's Committees and all other relevant objective circumstances.

Without prejudice to the foregoing, article 30 of the Board of Directors' Regulations states that directors, regardless of their type of directorship, can waive the right to receive remuneration based on a fixed monthly allocation and/or per diems to attend meetings of the Board of Directors, Executive Committee and/or Committees.

The amount of said per diem shall be, at the most, the amount which, in accordance with the above paragraphs, is determined to be the fixed monthly allocation. The Board of Directors may, within such limit, determine the amount of the allowances.

The remuneration contemplated in the preceding sections, deriving from membership on the Board of Directors, shall be compatible with other remuneration, indemnity payments, contributions to insurance schemes or any other professional or labour earnings pertaining to the Directors for any other executive or advisory duties which, as the case may be, they perform for the company other than those of collegiate supervision and decision-making characteristic of their status as Directors, which shall be subject to the appropriate applicable legal scheme.

Without prejudice to the above-mentioned remunerations, the Executive Directors remuneration may also consist of the transfer of Company shares, options over them or remuneration based on the value of the shares. The application of this remuneration model requires the agreement of the General Shareholders' Meeting, expressing, where appropriate, the maximum number of shares to be assigned during each financial year as part of this remuneration system, the strike price and the system used to calculate the strike price of share options, the value of the shares taken as a reference, when appropriate, the term of the remuneration plan and any other conditions deemed appropriate."

Members of the Board of Directors of ENDESA, S.A. therefore received remuneration in their capacity as Directors of the Company.

In 2016, the monthly fixed salary for each Director was Euros 15.6 million gross. However in 2016, the fixed monthly emolument of the posts of Chairman of the Audit and Compliance Committee and of the Appointments and Remuneration Committee was increased by Euros 1 thousand gross per month, and the remuneration of the Coordinating Director was increased by Euros 2.1 thousand gross per month.

The per diems for attendance at meetings of the Board of Directors, Executive Committee, Appointments and Remuneration Committee and Audit and Compliance Committee amounted to Euros 1.5 thousand gross each.

The members of the Board of Directors and Executive Directors receive remuneration for performing duties other than in their capacity as directors in accordance with the salary structure of senior management of ENDESA. The main components of this remuneration are:

- Fixed annual remuneration: cash remuneration paid monthly in accordance with the complexity and responsibility of the functions entrusted.

- Short-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with annual targets established through the Company's assessment systems.

- Long-term variable remuneration: cash remuneration that is not guaranteed and subject to compliance with multi-year targets.

- Social and other benefits: remuneration (normally non-cash) received in accordance with certain, special and specific requirements determined voluntarily, legally, contractually or through collective bargaining.

Fixed remuneration

The fixed annual remuneration of the Directors in 2016 and 2015, depending on the position held in each case, is as follows:

Thousands of Euros

		2016		2015	
		Salary	Fixed remuneration	Salary	Fixed remuneration
Borja Prado Eulate		1,132	188	1,086	188
Francesco Starace		-	-	-	-
José D. Bogas Gálvez		700	-	672	-
Alejandro Echevarría Busquet	(1)	-	197	-	188
Livio Gallo		-	-	-	-
Alberto de Paoli		-	-	-	-
Helena Revoredo Delvecchio		-	188	-	188
Miquel Roca Junyent	(2)	-	225	-	188
Enrico Viale		-	-	-	-
Ignacio Garralda Ruiz de Velasco	(3) (4)	-	191	-	125
Francisco de Lacerda	(4)	-	188	-	125
TOTAL		**1,832**	**1,177**	**1,758**	**1,002**

(1) Chairman of the Appointments and Remuneration Committee ("CNR") until September 2016.
(2) He is Coordinating Director. Chairman of the Audit and Compliance Committee ("CAC") until September 2016. Chairman of the Appointments and Remuneration Committee ("CNR") since October 2016.
(3) Chairman of the Audit and Compliance Committee ("CAC") since October 2016.
(4) They have been on the Board of Directors since April 27, 2015, so the information for 2015 refers to the period from April 27, 2015 to December 31, 2015.

Variable remuneration

The estimates of the variable remuneration for the years 2016 and 2015 of the Chairman and Chief Executive Officer, in the performance of their executive duties, are as follows, in an individualized manner:

Thousands of Euros

	2016		2015	
	Short-term	Long-term	Short-term	Long-term
Borja Prado Eulate	822	853	805	650
José D. Bogas Gálvez	522	705	497	403
TOTAL	**1,344**	**1,558**	**1,302**	**1,053**

Attendance fees

The attendance fees for each of the sessions of the Board of Directors and their Committees accrued in 2016 and 2015 are as follows:

Thousands of Euros

		2016		2015	
		ENDESA, S.A.	Other companies	ENDESA, S.A.	Other companies
Borja Prado Eulate		18	-	18	-
Francesco Starace		-	-	-	-
José D. Bogas Gálvez		-	-	-	-
Alejandro Echevarría Busquet	(1)	47	-	41	-
Livio Gallo		-	-	-	-
Alberto de Paoli		-	-	-	-
Helena Revoredo Delvecchio		42	-	28	-
Miquel Roca Junyent	(2)	51	-	41	-
Enrico Viale		-	-	-	-
Ignacio Garralda Ruiz de Velasco	(3) (4)	51	-	28	-
Francisco de Lacerda	(4)	51	-	28	-
TOTAL		**260**	**-**	**184**	**-**

(1) Chairman of the Appointments and Remuneration Committee ("CNR") until September 2016.
(2) He is Coordinating Director. Chairman of the Audit and Compliance Committee ("CAC") until September 2016. Chairman of the Appointments and Remuneration Committee ("CNR") since October 2016.
(3) Chairman of the Audit and Compliance Committee ("CAC") since October 2016.
(4) They have been on the Board of Directors since April 27, 2015, so the information for 2015 refers to the period from April 27, 2015 to December 31, 2015,

Other items

The Executive Directors, as well as the remaining Senior Executives, receive remuneration in kind, including a group healthcare policy subsidising 100% of the cost of the payment of the holder and dependent family members, the assignment of a company vehicle under a renting system, together with the benefit of electricity supplied at an employee rate, amounting to Euros 89 thousand in 2016 (Euros 282 thousand in 2015).

Advances and loans

At 31 December 2016, the Executive Directors had loans amounting to Euros 396 thousand (Euros 408 thousand at 31 December 2015). Of this amount, Euros 230 thousand corresponds to loans with an average interest rate of 0.527% and Euros 166 thousand to interest-free loans (interest subsidies are treated as payment in kind) (Euros 230 thousand and Euros 178 thousand, respectively, at 31 December 2015). Repayment of the principal will be made over the working life of the employee, with full cancellation when they leave the company.

Pension funds and schemes: contributions

In 2016, contributions to the pension funds and schemes of the Executive Directors amounted to Euros 591 thousand (Euros 592 thousand in 2015).

Pension funds and schemes: obligations assumed

At 31 December 2016, the amount of cumulative rights held by the Executive Directors in pension funds and schemes totalled Euros 11,741 thousand (Euros 10,702 thousand, at 31 December 2015).

Life insurance and accident premiums

The Company has taken out a life and accident insurance policy on behalf of the Executive Directors which guarantees certain capital and/or income payments depending on the contingency it relates to (disability and death cover). In 2016, the amount of this premium was Euros 255 thousand (Euros 191 thousand in 2015).

Guarantees provided by the Company to Senior Management Personnel

As regards remuneration, at 31 December 2016, the Company had guarantees on behalf of the Chief Executive Officer amounting to Euros 6,987 thousand to cover his early retirement entitlements. At 31 December 2015, these guarantees amounted to Euros 7,085 thousand.

34.4.2. Remuneration of Senior Management Personnel

Details of Senior Managers who are not Executive Directors, are as follows:

Name		Senior Executives in 2016 Position(*)
Alberto Fernández Torres		General Manager - Communication
Alvaro Luis Quiralte Abelló		General Manager - Energy Management
Andrea Lo Faso		General Manager - Human Resources and Organisation
Mr. Enrique de las Morenas Moneo	(1)	General Manager - Renewable Energies
Francesco Amadei		General Manager - Infrastructure and Networks
Javier Uriarte Monereo		General Manager - Sales
José Casas Marín		General Manager - Institutional Relations and Regulation
José Luis Puche Castillejo		General Manager - Media
José Mª Grávalos Lasuen	(2)	General Manager - Nuclear Power
Juan Mª Moreno Mellado	(3)	General Manager - Nuclear Power
Enrique Durand Baquerizo	(4)	General Manager - Audit
Mr. Luca Minzolini	(5)	General Manager - Audit
Manuel Fernando Marín Guzmán		General Manager - ICT
Manuel Morán Casero		General Manager - Generation
Malaxechevarría Grande		General Manager - Sustainability
Pablo Azcoitia Lorente		General Manager - Purchasing
Paolo Bondi		General Manager - Administration, Finance and Control
Francisco de Borja Acha Besga		General Secretary to the Board of Directors and General Manager of Legal and Corporate Affairs

(*) List of persons included in this table as per the definition of senior executive in Circular 5/2013, of 12 June 2013, issued by the Spanish Securities Market Commission (CNMV).
(1) Joined on 1 August 2016.
(2) Left on 2 January 2016.
(3) Joined on 1 January 2016.
(4) Left on 1 May 2016.
(5) Joined on 1 May 2016.

Name		Senior Executives in 2015
		Position(*)
Ricardo Pérez Blanco	(5)	General Manager - Legal and Corporate Affairs
Enrique Durand Baquerizo		General Manager - Audit
Paolo Bondi		General Manager - Administration, Finance and Control
Alberto Fernández Torres		General Manager - Communication
José Luis Puche Castillejo		General Manager - Media
Andrea Lo Faso		General Manager - Human Resources and Organisation
José Casas Marín		General Manager - Institutional Relations and Regulation
Fernando Ferrando Vitales	(1)	General Manager - Sustainability
Pablo Azcoitia Lorente		General Manager - Purchasing
Manuel Fernando Marín Guzmán		General Manager - ICT
Javier Uriarte Monereo		General Manager - Sales
Manuel Morán Casero		General Manager - Generation
Alvaro Luis Quiralte Abelló		General Manager - Energy Management
Francesco Amadei		General Manager - Infrastructures and Networks
José María Grávalos Lasuen	(4)	General Manager - Nuclear Power
Francisco de Borja Acha Besga	(2)	General Secretary and Secretary of the Board of Directors
Maria Malaxechevarría Grande	(2)	General Manager - Sustainability
Salvador Montejo Velilla	(3)	Secretary of the Board of Directors

(*) List of persons included in this table as per the definition of senior executive in Circular 5/2013, of 12 June 2013, issued by the Spanish Securities Market Commission (CNMV).
(1) Left on 30 June 2015.
(2) Joined on 1 August 2015.
(3) Left on 31 July 2015.
(4) Left on 2 January 2016.
(5) Left on 31 December 2015.

Remuneration of Senior Management Personnel

Details of the remuneration of Senior Executives are as follows:

Thousand Euros

	Remuneration			
	At the Company		For membership of Boards of Directors of ENDESA companies	
	2016	2015	2016	2015
Fixed remuneration	5,354	5,189	-	-
Variable remuneration	6,268	4,995	-	-
Per Diems for attendance	-	-	-	-
Bylaw-stipulated emoluments	-	-	-	-
Options on shares and other financial instruments	-	-	-	-
Other	1,312	1,993	-	-
TOTAL	**12,934**	**12,177**	**-**	**-**

Thousand Euros

	Other Benefits			
	At the Company		For membership of Boards of Directors of ENDESA companies	
	2016	2015	2016	2015
Advances	437	584	-	-
Loans granted	153	153	-	-
Pension Funds and Schemes: contributions	1,073	949	-	-
Pension Funds and Schemes: obligations assumed	17,028	16,407	-	-
Life insurance and accident premiums	204	356	-	-

Guarantees provided by the Company to Senior Management Personnel

At 31 December 2016 and 2015, the Company had not issued any guarantees to Senior Management in relation to remuneration.

34.4.3. Guarantee clauses: Board of Directors and Senior Management Personnel

Guarantee clauses for dismissal or changes of control

These clauses are the same in all the contracts of the Executive Directors and Senior Executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.

With regard to management, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

The regime for these clauses is as follows.

Termination of the employment relationship:

- By mutual agreement: termination benefit equal to an amount from 1 to 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy established that when new Directors are included, a maximum number of two years of total annual remuneration will be set as payment for contract termination, applicable in any case in the same terms to the Executive Director contracts.

- At the unilateral decision of the Executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other causes for compensation for termination foreseen in Royal Decree 1382/1985 of 1 August 1985.

- As a result of termination by the Company: termination benefit equal to that described in the first point.

- At the decision of the Company based on the serious wilful misconduct or negligence of the Executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

Post-contractual non-competition clause: In the vast majority of contracts, Senior Executives are required not to engage in a business activity in competition with ENDESA for a period of 2 years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

At 31 December 2016 and 2015, ENDESA had 13 and 11 Executive Directors and Senior Executives with guarantee clauses in their employment contracts, respectively.

34.4.4. Other disclosures concerning the Board of Directors

To increase the transparency of listed companies, the members of the Board of Directors have disclosed, to the best of their knowledge, the direct or indirect stakes they and their related parties hold in companies with the same, analogous or similar corporate purpose as that of ENDESA, S.A., and the positions or duties they perform therein.

At 31 December 2016				
Director	**Personal or company tax ID**	**Company**	**% ownership**	**Position**
Borja Prado Eulate	B85721025	ENEL Iberoamérica, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00117658	Chief Executive Officer and General Manager
Francesco Starace	B85721025	ENEL Iberoamérica, S.L.U.	-	Chairman
José Bogas Gálvez	B85721025	ENEL Iberoamérica, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogás, S.A.	-	Chairman
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Alberto de Paoli	06377691008	ENEL Italia, S.R.L	-	Director
Livio Gallo	00811720580	ENEL, S.p.A.	0,00017015	Head of Infrastructure and Global Networks
Livio Gallo	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	94271000-3	ENEL Américas, S.A.	-	Director
Enrico Viale	00811720580	ENEL, S.p.A.	0,00007769	Head of Global Thermal Generation Enel
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Ignacio Garralda	00811720580	ENEL, S.p.A.	0,00027540	-

At 31 December 2015				
Director	**Personal or company tax ID**	**Company**	**% ownership**	**Position**
Borja Prado Eulate	B85721025	ENEL Iberoamérica, S.L.U.	-	Director
Francesco Starace	00811720580	ENEL, S.p.A.	0,00001806	Chief Executive Officer and General Manager
Francesco Starace	N9022122G	ENEL Green Power, S.p.A.	0,00004	-
Francesco Starace	B85721025	ENEL Iberoamérica, S.L.U.	-	Chairman
Francesco Starace	94,271,000-3	Enersis Américas, S.A.	-	Vice Chairman
José Bogas Gálvez	B85721025	ENEL Iberoamérica, S.L.U.	-	Director
José Bogas Gálvez	A80316672	Elcogás,S.A.	-	Chairman
José Bogas Gálvez	B 61234613	ENEL Green Power España, S.L. (EGPE)	-	Director
Alberto de Paoli	00811720580	ENEL, S.p.A.	-	Head of Administration, Finance and Control
Alberto de Paoli	94,271,000-3	Enersis Américas, S.A.	-	Director
Alberto de Paoli	N9022122G	ENEL Green Power, S.p.A.	-	Chairman
Alberto de Paoli	06377691008	ENEL Italia, S.R.L	-	Director
Livio Gallo	00811720580	ENEL, S.p.A.	-	Head of Infrastructure and Global Networks
Livio Gallo	96,800,570-7	Chilectra, S.A.	-	Chairman
Livio Gallo	05779711000	ENEL Distribuzione, S.p.A.	-	Chairman
Enrico Viale	00811720580	ENEL, S.p.A.		Generation Manager
Enrico Viale	00793580150	CESI, S.p.A.	-	Director
Enrico Viale	23-7175375	Electric Power Research Institute	-	Director
Enrico Viale	N9022122G	ENEL Green Power, S.p.A.	0,00000324	-
Enrico Viale	91,081,000-6	Empresa Nacional de Electricidad, S.A.	-	Chairman

In accordance with Article 229 of the Corporate Enterprises Act, the direct or indirect situations of conflict of interest involving members of the Board of Directors with the interest of the Company, along with how they were handled, were as follows:

– The Executive Directors, in their capacity as directors of ENEL Iberoamérica S.L.U. appointed by ENEL, S.p.A. have been able to find themselves in conflicts of interests regarding decision-making for transactions with ENEL S.p.A. or ENEL Group companies and in any case, in line with article 529 ter of the Spanish Corporate Enterprises Act, they have abstained from participating in all events occurred in 2016.

– The Proprietary Directors, appointed by ENEL, S.p.A., had a conflict of interest when authorising transactions with ENEL, S.p.A. or ENEL Group companies. In all the situations arising in 2016, the Proprietary directors did not participate in the related items on the agenda of the Board of Directors meeting.

– Independent Director Ms. Helena Revoredo Delvecchio, in her capacity as controlling shareholder of Prosegur Compañía de Seguridad, S.A., in which she acts as Chairwoman, was involved in 2 conflicts of interest in 2016 for her involvement in decision-making in 2 transactions with Prosegur Compañía de

Seguridad, S.A. or companies in the Prosegur Group. The Director did not participate in the items on the agenda of the Board of Directors' meeting.

Distribution by gender: at 31 December 2016, the Board of Directors of ENDESA, S.A. was composed of 11 directors, 1 of which is a women. At 31 December 2015, there were 11 Directors, 1 of which was a woman.

In 2016 and 2015, no damage was caused by reason of acts or omissions by the Directors that required making use of the civil liability insurance that has been taken out to cover them for this by the Company. In 2016, the premium for this policy amounted to Euros 42 thousand (Euros 46 thousand in 2015).This policy covers both the Directors and other Company employees with management responsibility.

34.4.5. Share-based payment schemes tied to the ENDESA share price

Within the framework of the ENDESA Loyalty Plan (see Note 34.4.6), the Company's General Shareholders' Meeting, held on 26 April 2016, approved certain long-term remuneration schemes for 2015-2017 and 2016-2018 linked, among other indicators, to the Company's share price. These schemes are managed by ENDESA’s Chairman, CEO and Directors, who have strategic responsibility.

In its Loyalty Plan, ENDESA established the objective of “Total Shareholders’ Return (TSR) of Endesa”, defined as the average value of the” TSR of ENDESA” as compared with the average value of the “TSR of the Euro-Stoxx Utilities Index, selected as the Comparable Group for the repayment period.

This indicator measures the total return of a share as the sum of its parts:

i. Capital gains: the relation between the change in the share price (the difference between the price recorded at the end and at the beginning of the reference period) and the value established at the start of the period;

ii. Reinvested dividends: the relationship between the dividends per share distributed in the reference period and the share price at the start of the period.

The amount accrued by these Loyalty Plan Schemes in 2016 for the group of managers was Euros 5 million.

34.4.6. Long-term employee benefits

In 2010, ENDESA set up a long-term employee benefit system known as the "Loyalty Scheme", aimed at strengthening the commitment of senior staff to achieving the Group’s strategic targets. Since 2014, the schemes have included deferment of payment and the need for management staff to be currently in service at that date; these payments are made at 2 different times: 30% of the incentive the year after finalisation of the scheme, and the remaining 70%, where appropriate, once 2 years have elapsed since completion of the Plan.

At 31 December 2016 the 2014-2016 Programme came to an end, with final settlement due to take place during the period 2017-2020 according to option for receipt chosen by employees under this scheme.

The amount accrued in relation to this scheme in 2016, for the group of employees amounted to Euros 8 million.

35. Guarantees to third parties, other contingent assets and liabilities and other commitments

35.1. Direct and indirect guarantees

Pursuant to the agreement entered into between Hidromondego – Hidroeléctrica do Mondego, Lda and the Portuguese government, in 2016 the guarantees that ENDESA, S.A. had issued in relation to the development of the Girabolhos Hydroelectric Plant construction project (Portugal) were partially released, such that at 31 December 2016 the outstanding balance stood at Euros 10 million (Euros 38 million at 31 December 2015).

At 31 December 2016 and 2015, the breakdown of guarantees granted to ENDESA’s associated companies and joint ventures are detailed in Note 34.2.

ENDESA considers that any additional liabilities arising from guarantees given at 31 December 2016 and 2015 would not be material.

At 31 December 2016, the Group's liquid financial assets pledged as security for liabilities or contingent liabilities amounted to Euros 26 million (at 31 December 2015 no financial assets had been pledged).

At 31 December 2016, property, plant and equipment amounting to Euros 178 million had been pledged to secure financing received from third parties.

At 31 December 2015, no pledges existed on future collections or on items of property, plant and equipment to secure financing received from third parties (see Notes 6.1 and 17.2).

35.2. Other commitments

There are no further commitments to those described in Notes 6, 8, 11 and18.1.3 of these Consolidated Financial Statements.

36. Audit fees

Details of fees for the services provided in 2016 and 2015 by the auditors of the annual financial statements of the various ENDESA companies are as follows:

Thousands of Euros

	2016		2015	
	Ernst&Young	Other auditors of subsidiaries	Ernst&Young	Other auditors of subsidiaries
Audit of the financial statements	1,788	7	1,262	7
Audits other than of the financial statements and other audit-related services	1,611	-	2,508	-
Other non-audit services	182	-	-	-
TOTAL	**3,581**	**7**	**3,770**	**7**

The figures reported in the table above include all of the fees accrued for the services rendered during the years ended 2016 and 2015, irrespective of when they were actually billed.

37. Personnel

The tables below show ENDESA's final and average headcounts, per category and Segments:

Number of employees

	Final headcount					
	31 December 2016			31 December 2015		
	Male	Female	Total (1)	Male	Female	Total
Executives	244	48	292	249	43	292
Graduates	1,944	864	2,808	1,852	808	2,660
Middle management and manual workers	5,338	1,256	6,594	5,752	1,296	7,048
TOTAL EMPLOYEES	**7,526**	**2,168**	**9,694**	**7,853**	**2,147**	**10,000**

(1) At 31 December 2016, this included the final workforce of ENEL Green Power España, S.L.U. (EGPE) (188 employees) and Eléctrica del Ebro, S.A. (20 employees).

Number of employees

	Final headcount					
	31 December 2016			31 December 2015		
	Male	Female	Total (1)	Male	Female	Total
Generation and supply	4,140	989	5,129	4,137	971	5,108
Distribution	2,707	467	3,174	3,019	483	3,502
Structure and others (2)	679	712	1,391	697	693	1,390
TOTAL EMPLOYEES	**7,526**	**2,168**	**9,694**	**7,853**	**2,147**	**10,000**

(1) At 31 December 2016, this included the final workforce of ENEL Green Power España, S.L.U. (EGPE) (188 employees) and Eléctrica del Ebro, S.A. (20 employees).
(2) Structure and services.

Number of employees

	Average headcount					
	2016 (1)			2015		
	Male	Female	Total	Male	Female	Total
Executives	253	47	300	265	46	311
Graduates	1,897	831	2,728	1,870	804	2,674
Middle management and manual workers	5,509	1,282	6,791	5,903	1,355	7,258
TOTAL EMPLOYEES	**7,659**	**2,160**	**9,819**	**8,038**	**2,205**	**10,243**

(1) In 2016 this included 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.

Number of employees

	Average headcount					
	2016			2015		
	Male	Female	Total	Male	Female	Total
Generation and supply (1)	4,127	983	5,110	4,188	995	5,183
Distribution	2,841	474	3,315	3,105	490	3,595
Structure and others (2)	691	703	1,394	745	720	1,465
TOTAL	**7,659**	**2,160**	**9,819**	**8,038**	**2,205**	**10,243**

(1) In 2016 this included 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.
(2) Structure and services.

The average number of employees in joint operation entities in 2016 and 2015 was 881 and 895, respectively.

The average persons employed in 2016 and 2015 with an incapacity greater than or equal to 33%, per category and segments, is the following.

Number of employees

	2016	2015
Executives	-	-
Graduates	19	14
Middle management and manual workers	59	64
TOTAL EMPLOYEES	**78**	**78**

Number of employees

	2016	2015
Generation and supply	30	29
Distribution	24	28
Structure and others (1)	24	21
TOTAL	**78**	**78**

(1) Structure and services.

38. Events after the reporting period

Except for the transaction to acquire ENEL Iberoamérica, S.L.U.'s systems and telecommunications business, (see Note 12), no other significant events took place between 31 December 2016 and the date of authorisation for issue of the accompanying Consolidated Financial Statements that have not been reflected therein.

39. Explanation added for translation to English

These Consolidated Financial Statements are presented on the basis of IFRSs, as adopted by the European Union. Consequently, certain accounting practices applied by the Group that conform to IFRSs may not conform to other generally accepted accounting principles in other countries. Translation from the original issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Appendix I: ENDESA companies

Company (in alphabetical order)	% ownership at 31/12/2016			% ownership at 31/12/2015			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method			
AGUILÓN 20, S.A.	51.00	51.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ALMUSSAFES SERVICIOS ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	BARCELONA (SPAIN)	CHP PLANTS	UNAUDITED
AQUILAE SOLAR, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
ARAGONESA DE ACTIVIDADES ENERGÉTICAS, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	TERUEL (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
ASOCIACIÓN NUCLEAR ASCÓ-VANDELLÓS II, A.I.E.	85.41	85.41	PC	85.41	85.41	PC	TARRAGONA (SPAIN)	MANAGEMENT, OPERATION AND ADMINISTRATION OF NUCLEAR PLANTS	ERNST & YOUNG
CEFEIDAS DESARROLLO SOLAR, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
CEPHEI DESARROLLO SOLAR, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
DESARROLLO PHOTOSOLAR, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
DISTRIBUIDORA DE ENERGÍA ELÉCTRICA DEL BAGES, S.A.	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	UNAUDITED
DISTRIBUIDORA ELÉCTRICA DEL PUERTO DE LA CRUZ, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	PURCHASE, TRANSMISSION, DISTRIBUTION AND RETAILING OF ELECTRICITY	ERNST & YOUNG
ELÉCTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	L'AMPOLLA (TARRAGONA)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
EMPRESA CARBONÍFERA DEL SUR, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	EXPLOITATION OF COAL FIELDS	ERNST & YOUNG
ENDESA CAPITAL, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	ISSUANCE OF DEBT INSTRUMENTS	ERNST & YOUNG
ENDESA COMERCIALIZAÇÃO DE ENERGIA, S.A.	100.00	100.00	FC	100.00	100.00	FC	PORTO (PORTUGAL)	MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA DISTRIBUCIÓN ELÉCTRICA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	ELECTRICITY DISTRIBUTION	ERNST & YOUNG
ENDESA ENERGÍA XXI, S.L. (SOLE-SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	SERVICES ASSOCIATED WITH THE MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA ENERGÍA, S.A. (SOLE-SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	MARKETING OF ENERGY PRODUCTS	ERNST & YOUNG
ENDESA FINANCIACIÓN FILIALES, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	FINANCING OF THE SUBSIDIARIES OF ENDESA, S.A.	ERNST & YOUNG
ENDESA GENERACIÓN II, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
ENDESA GENERACIÓN NUCLEAR, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	MANAGEMENT OF NUCLEAR ASSETS AND MANAGEMENT, PRODUCTION AND SALE OF ELECTRICITY	UNAUDITED
ENDESA GENERACIÓN PORTUGAL, S.A.	100.00	100.00	FC	99.40	99.40	FC	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION AND RELATED ACTIVITIES	ERNST & YOUNG
ENDESA GENERACIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION AND RETAILING	ERNST & YOUNG
ENDESA INGENIERÍA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	CONSULTANCY AND CIVIL ENGINEERING SERVICES	ERNST & YOUNG
ENDESA OPERACIONES Y SERVICIOS COMERCIALES, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	PROVISION OF SERVICES TO ENDESA DISTRIBUCIÓN ELÉCTRICA AND TO ENDESA ENERGÍA	ERNST & YOUNG
ENDESA POWER TRADING LTD.	100.00	100.00	FC	100.00	100.00	FC	LONDON (UK)	TRADING OPERATIONS	ERNST & YOUNG
ENDESA RED, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	DISTRIBUTION ACTIVITIES	ERNST & YOUNG
ENDESA SERVICIOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	MADRID (SPAIN)	SERVICES	ERNST & YOUNG
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM	MADRID (SPAIN)	COMBINED HEAT AND POWER AND RENEWABLE ENERGIES	ERNST & YOUNG
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	-	-	-	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	UNAUDITED
ENERGÍA ELÉCTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY) (IN LIQUIDATION)	100.00	100.00	FC	-	-	-	L'AMPOLLA (TARRAGONA)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS DE ARAGÓN I, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	ZARAGOZA (SPAIN)	TRANSMISSION, DISTRIBUTION AND SALE OF ELECTRICITY UNDER THE TARIFF SYSTEM	ERNST & YOUNG
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	-	-	-	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	-	-	-	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE AGAETE, S.L.	80.00	80.00	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG

Company (in alphabetical order)	% ownership at 31/12/2016 Control	Ownership	Consolidation method	% ownership at 31/12/2015 Control	Ownership	Consolidation method	Registered offices	Activity	Auditor
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	-	-	-	TERUEL (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
FOTOVOLTAICA INSULAR, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
GAS Y ELECTRICIDAD GENERACIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	PALMA DE MALLORCA (SPAIN)	ELECTRICITY PRODUCTION	ERNST & YOUNG
GUADARRANQUE SOLAR 4, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	SEVILLE (SPAIN)	ELECTRICITY PRODUCTION USING RENEWABLE ENERGIES	UNAUDITED
HIDROELÉCTRICA DE CATALUNYA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	BARCELONA (SPAIN)	ELECTRICITY TRANSMISSION AND DISTRIBUTION	ERNST & YOUNG
HIDROFLAMICELL, S.L.	75.00	75.00	FC	75.00	75.00	FC	BARCELONA (SPAIN)	ELECTRICITY DISTRIBUTION AND SALE	UNAUDITED
HIDROMONDEGO - HIDROELÉCTRICA DO MONDEGO, LDA	100.00	100.00	FC	100.00	99.94	FC	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION AND RETAILING	UNAUDITED
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	-	-	-	BADAJOZ (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
INTERNATIONAL ENDESA B.V.	100.00	100.00	FC	100.00	100.00	FC	AMSTERDAM (HOLLAND)	INTERNATIONAL FINANCIAL TRANSACTIONS	ERNST & YOUNG
LA PEREDA CO_2, A.I.E.	33.33	33.33	PC	33.33	33.33	PC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
MINAS DE ESTERCUEL, S.A. (IN LIQUIDATION)	99.65	99.57	FC	99.65	99.57	FC	MADRID (SPAIN)	MINERAL DEPOSITS	UNAUDITED
MINAS GARGALLO, S.L. (IN LIQUIDATION)	99.91	99.91	FC	99.91	99.91	FC	MADRID (SPAIN)	MINERAL DEPOSITS	UNAUDITED
NUEVA MARINA REAL ESTATE, S.L.	60.00	60.00	FC	60.00	60.00	FC	MADRID (SPAIN)	REAL ESTATE ASSET MANAGEMENT AND DEVELOPMENT	ERNST & YOUNG
PARAVENTO, S.L.	90.00	90.00	FC	-	-	-	LUGO (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARQUE EÓLICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO BELMONTE, S.A.	50.16	50.16	FC	-	-	-	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	-	-	-	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO PUNTA DE TENO, S.A.	52.00	52.00	FC	-	-	-	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	-	-	-	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PEREDA POWER, S.L.	70.00	70.00	FC	70.00	70.00	FC	ASTURIAS (SPAIN)	ELECTRICITY PRODUCTION	UNAUDITED
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	-	-	-	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A.	85.00	85.00	FC	-	-	-	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A.	82.89	82.89	FC	-	-	-	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	LEÓN (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SERRA DO MONCOSO-CAMBÁS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	-	-	-	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	ERNST & YOUNG
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	-	-	-	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	-	-	-	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOL DE MEDIA NOCHE FOTOVOLTAICA, S.L.	50.00	50.00	PC	50.00	50.00	PC	LAS PALMAS DE GRAN CANARIA (SPAIN)	DEVELOPMENT AND CONSTRUCTION OF SOLAR PV INSTALLATIONS	AGUSTI & SANCHEZ AUDITORES
SUMINISTRO DE LUZ Y FUERZA, S.L.	60.00	60.00	FC	60.00	60.00	FC	GIRONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	ERNST & YOUNG
TRANSPORTES Y DISTRIBUCIONES ELÉCTRICAS, S.A.	73.33	73.33	FC	73.33	73.33	FC	GIRONA (SPAIN)	ELECTRICITY TRANSMISSION	UNAUDITED
UNIÓN ELÉCTRICA DE CANARIAS GENERACIÓN, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	100.00	100.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	ELECTRICITY PRODUCTION	ERNST & YOUNG
VIRULEIROS, S.L.	67.00	67.00	FC	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED

FC: Full consolidation; PC: Proportionate consolidation; EM: Equity method.

Appendix II: Joint ventures and associates

Company (in alphabetical order)	% ownership at 31/12/2016 Control	Ownership	Consolidation method	% ownership at 31/12/2015 Control	Ownership	Consolidation method	Registered offices	Activity	Auditor
BOIRO ENERGÍA, S.A.	40.00	40.00	EM	-	-	-	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	[DELOITTE
CARBOPEGO - ABASTECIMIENTOS DE COMBUSTIVEIS, S.A.	50.00	50.00	EM	50.00	49,99	EM	LISBON (PORTUGAL)	FUEL SUPPLY	KPMG AUDITORES
CENTRAL HIDRÁULICA GÜEJAR-SIERRA, S.L.	33.33	33.33	EM	-	-	-	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	GATT AUDITORES
CENTRAL TÉRMICA DE ANLLARES, A.I.E.	33.33	33.33	EM	33.33	33.33	EM	MADRID (SPAIN)	MANAGEMENT OF THE ANLLARES THERMAL POWER PLANT	UNAUDITED
CENTRALES NUCLEARES ALMARAZ-TRILLO, A.I.E.	24.26	23.92	EM	24.26	23.92	EM	MADRID (SPAIN)	MANAGEMENT OF THE ALMARAZ AND TRILLO NUCLEAR PLANTS	ERNST & YOUNG
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	EM	-	-	-	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
COMPAÑÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	EM	-	-	-	SORIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L.	50.00	50.00	EM	-	-	-	CADIZ (SPAIN)	SEA WIND FARMS	UNAUDITED
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	EM	-	-	-	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	PWC
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	EM	-	-	-	LA CORUÑA (SPAIN)	RECYCLING PLANT	[DELOITTE
ELCOGAS, S.A.	40.99	40.99	EM	40.99	40.99	EM	CIUDAD REAL (SPAIN)	ELECTRICITY PRODUCTION	[DELOITTE
ELECGAS, S.A.	50.00	50.00	EM	50.00	49.70	EM	SANTAREM (PORTUGAL)	COMBINED-CYCLE ELECTRICITY PRODUCTION	KPMG AUDITORES
ELÉCTRICA DE JAFRE, S.A.	47.46	47.46	EM	47.46	47.46	EM	GIRONA (SPAIN)	ENERGY DISTRIBUTION AND SUPPLY	RCM AUDITORES
ELÉCTRICA DE LIJAR, S.L.	50.00	50.00	EM	50.00	50.00	EM	CADIZ (SPAIN)	ELECTRICITY TRANSMISSION AND DISTRIBUTION	AVANTER AUDITORES
ELECTRICIDAD DE PUERTO REAL, S.A.	50.00	50.00	EM	50.00	50.00	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY AND DISTRIBUTION	[DELOITTE
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	EM	-	-	-	LEÓN (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGIE ELECTRIQUE DE TAHADDART, S.A.	32.00	32.00	EM	32.00	32.00	EM	TANGIERS (MOROCCO)	COMBINED CYCLE PLANT	[DELOITTE
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	EM	-	-	-	ASTURIAS (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	EM	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE LA PATAGONIA, S.A.	50.00	50.00	EM	-	-	-	CAPITAL FEDERAL (ARGENTINA)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	EM	-	-	-	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	LUJAN AUDITORES
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	-	-	-	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ANCERO AUDITORES
ERECOSALZ, S.L.	33.00	33.00	EM	-	-	-	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
GORONA DEL VIENTO EL HIERRO, S.A.	23.21	23.21	EM	23.21	23.21	EM	SANTA CRUZ DE TENERIFE (SPAIN)	DEVELOPMENT AND MAINTENANCE OF THE EL HIERRO POWER PLANT	UNIONAUDIT J.Y.E. S.L.
HIDROELÉCTRICA DE OUROL, S.L.	30.00	30.00	EM	-	-	-	LA CORUÑA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
KROMSCHROEDER, S.A.	29.26	29.26	EM	29.26	29.26	EM	BARCELONA (SPAIN)	METER-READING EQUIPMENT	BDO AUDITORES
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	EM	-	-	-	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
NUCLENOR, S.A.	50.00	50.00	EM	50.00	50.00	EM	BURGOS (SPAIN)	ELECTRICITY GENERATION USING NUCLEAR POWER	ERNST & YOUNG
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	EM	-	-	-	TERUEL (SPAIN)	CHP PLANTS	UNAUDITED
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	EM	-	-	-	BARCELONA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	EM	-	-	-	BARCELONA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PEGOP - ENERGÍA ELÉCTRICA, S.A.	50.00	50.00	EM	50.00	49,99	EM	SANTAREM (PORTUGAL)	OPERATION OF THE PEGO POWER PLANT	KPMG AUDITORES
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	EM	-	-	-	BARCELONA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
PROYECTO ALMERÍA MEDITERRÁNEO, S.A. (IN LIQUIDATION)	45.00	45.00	EM	45.00	45.00	EM	MADRID (SPAIN)	INSTALLATION OF SEAWATER DESALINATION PLANT	UNAUDITED
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	EM	-	-	-	ALICANTE (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	EM	-	-	-	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-	SEVILLE (SPAIN)	CHP PLANTS	UNAUDITED
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	EM	-	-	-	MADRID (SPAIN)	HYDROELECTRIC POWER PLANT	KPMG AUDITORES
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	EM	-	-	-	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOTAVENTO GALICIA, S.A.	36.00	36.00	EM	-	-	-	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	AUDIESA
SUMINISTRADORA ELÉCTRICA DE CÁDIZ, S.A.	33.50	33.50	EM	33.50	33.50	EM	CADIZ (SPAIN)	ELECTRICITY SUPPLY AND DISTRIBUTION	ERNST & YOUNG
TECNATOM, S.A.	45.00	45.00	EM	45.00	45.00	EM	MADRID (SPAIN)	SERVICES TO ELECTRICITY PRODUCTION FACILITIES	ERNST & YOUNG
TEJO ENERGIA - PRODUÇÃO E DISTRIBUÇÃO DE ENERGIA ELÉCTRICA, S.A.	43.75	43.75	EM	38.89	38.89	EM	LISBON (PORTUGAL)	ELECTRICITY PRODUCTION, TRANSMISSION AND DISTRIBUTION	KPMG AUDITORES
TERMOTEC ENERGÍA, A.I.E. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-	VALENCIA (SPAIN)	CHP PLANTS	UNAUDITED
TOLEDO PV, A.I.E.	33.33	33.33	EM	-	-	-	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	PWC
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-	MADRID (SPAIN)	RENEWABLE ENERGY	UNAUDITED
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-	ALMERIA (SPAIN)	CHP PLANTS	UNAUDITED

EM: Equity method.

Appendix III: Changes in the consolidated group

Subsidiaries and joint operation entities: Inclusions during 2016

Company (in alphabetical order)	% ownership at 31/12/2016			% ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
AGUILÓN 20, S.A.	51.00	51.00	FC	-	-	-
ALMUSSAFES SERVICIOS ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ELÉCTRICA DEL EBRO, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	-	-	-
ENERGÍA DE LA LOMA, S.A. (*)	-	-	-	-	-	-
ENERGÍA ELÉCTRICA DEL EBRO, S.A. (SOLE-SHAREHOLDER COMPANY) (IN LIQUIDATION)	100.00	100.00	FC	-	-	-
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	-	-	-
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	-	-	-
ENERGÍAS DE LA MANCHA ENEMAN, S.A. (*)	-	-	-	-	-	-
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	-	-	-
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	-	-	-
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	-	-	-
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	-	-	-
EÓLICAS DE AGAETE, S.L.	80.00	80.00	FC	-	-	-
EÓLICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	-	-	-
EÓLICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	-	-	-
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	-	-	-
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	-	-	-
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	-	-	-
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	-	-	-
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	-	-	-
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	-	-	-
PARAVENTO, S.L.	90.00	90.00	FC	-	-	-
PARQUE EÓLICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
PARQUE EÓLICO BELMONTE, S.A.	50.16	50.16	FC	-	-	-
PARQUE EÓLICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	-	-	-
PARQUE EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	-	-	-
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	-	-	-
PARQUE EÓLICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	-	-	-
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	-	-	-
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	-	-	-
PARQUE EÓLICO PUNTA DE TENO, S.A.	52.00	52.00	FC	-	-	-
PARQUE EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	-	-	-
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	-	-	-
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A.	85.00	85.00	FC	-	-	-
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A.	82.89	82.89	FC	-	-	-
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
SERRA DO MONCOSO-CAMBÁS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	-	-	-
SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	-	-	-
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	-	-	-
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	-	-	-
VIRULEIROS, S.L.	67.00	67.00	FC	-	-	-

FC: Full consolidation; EM: Equity method.
(*) These companies were consolidated on 27 July 2016 and deconsolidated on 29 December 2016.

Subsidiaries and joint operation entities: Exclusions during 2016

Company (in alphabetical order)	% ownership at 31/12/2016			% ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
ENERGÍA DE LA LOMA, S.A. (*)	-	-	-	-	-	-
ENERGÍAS DE LA MANCHA ENEMAN, S.A. (*)	-	-	-	-	-	-

(*) These companies were consolidated on 27 July 2016 and deconsolidated on 29 December 2016.

Subsidiaries and joint operation entities: Changes during 2016

Company (in alphabetical order)	% ownership at 31/12/2016			% ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
ENDESA GENERACIÓN PORTUGAL, S.A.	100.00	100.00	FC	99.40	99.40	FC
HIDROMONDEGO - HIDROELÉCTRICA DO MONDEGO, LDA	100.00	100.00	FC	100.00	99.94	FC

FC: Full consolidation

Subsidiaries and joint operation entities: Inclusions during 2015

Company (in alphabetical order)	% ownership at 31/12/2015			% ownership at 31/12/2014		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
MADRILEÑA SUMINISTRO DE GAS, S.L.U. (*)	-	-	-	-	-	-
MADRILEÑA SUMINISTRO DE GAS SUR, S.L.U. (*)	-	-	-	-	-	-

(*) These companies were consolidated on 01 November 2015 and deconsolidated the same day.

Subsidiaries and joint operation entities: Exclusions during 2015

Company (in alphabetical order)	% ownership at 31/12/2015			% ownership at 31/12/2014		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
ANDORRA DESARROLLO, S.A.U.	-	-	-	100.00	100.00	FC
APAMEA 2000, S.L.U.	-	-	-	100.00	100.00	FC
BOLONIA REAL ESTATE, S.L.U.	-	-	-	100.00	100.00	FC
CARBOEX, S.A.U.	-	-	-	100.00	100.00	FC
ENDESA GAS, S.A.U.	-	-	-	100.00	100.00	FC
GASIFICADORA REGIONAL CANARIA, S.A.	-	-	-	100.00	99.83	FC
MADRILEÑA SUMINISTRO DE GAS, S.L.U. (*)	-	-	-	-	-	-
MADRILEÑA SUMINISTRO DE GAS SUR, S.L.U. (*)	-	-	-	-	-	-
NUEVA COMPAÑÍA DE DISTRIBUCIÓN ELÉCTRICA 4, S.L.U.	-	-	-	100.00	100.00	FC

FC: Full consolidation
(*) These companies were consolidated on 01 November 2015 and deconsolidated the same day.

Associates and joint ventures: Companies included for the first time, excluded and changes in 2016

Company (in alphabetical order)	% ownership at 31/12/2016			% ownership at 31/12/2015		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
Companies included						
BOIRO ENERGÍA, S.A.	40.00	40.00	EM	-	-	-
CENTRAL HIDRÁULICA GÜEJAR-SIERRA, S.L.	33.33	33.33	EM	-	-	-
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	EM	-	-	-
COMPAÑÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	EM	-	-	-
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L.	50.00	50.00	EM	-	-	-
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	EM	-	-	-
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	EM	-	-	-
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	EM	-	-	-
ENERLASA, S.A. (UNDER LIQUIDATION) (*)	-	-	-	-	-	-
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	EM	-	-	-
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	EM	-	-	-
EÓLICAS DE LA PATAGONIA, S.A.	50.00	50.00	EM	-	-	-
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	EM	-	-	-
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	-	-	-
ERECOSALZ, S.L.	33.00	33.00	EM	-	-	-
HIDROELÉCTRICA DE OUROL, S.L.	30.00	30.00	EM	-	-	-
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	EM	-	-	-
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	EM	-	-	-
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	EM	-	-	-
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	EM	-	-	-
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	EM	-	-	-
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	EM	-	-	-
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	EM	-	-	-
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	EM	-	-	-
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	EM	-	-	-
SOTAVENTO GALICIA, S.A.	36.00	36.00	EM	-	-	-
TERMOTEC ENERGÍA, A.I.E. (IN LIQUIDATION)	45.00	45.00	EM	-	-	-
TOLEDO PV, A.I.E.	33.33	33.33	EM	-	-	-
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	EM	-	-	-
Companies excluded:						
ENEL INSURANCE N.V.	-	-	-	50.00	50.00	EM
ENEL GREEN POWER ESPAÑA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	40.00	40.00	EM
ENERLASA, S.A. (UNDER LIQUIDATION) (*)	-	-	-	-	-	-
Changes:						
CARBOPEGO - ABASTECIMIENTOS DE COMBUSTIVEIS, S.A.	50.00	50.00	EM	50.00	49,99	EM
ELECGAS, S.A.	50.00	50.00	EM	50.00	49.70	EM
PEGOP - ENERGÍA ELÉCTRICA, S.A.	50.00	50.00	EM	50.00	49,99	EM
TEJO ENERGIA - PRODUÇÃO E DISTRIBUÇÃO DE ENERGIA ELÉCTRICA, S.A.	43.75	43.75	EM	38.89	38.89	EM

FC: Full consolidation; EM: Equity method.

(*) This company was consolidated on 27 July 2016 and deconsolidated on 30 December 2016.

Associates and joint ventures: Companies included for the first time, excluded and changes in 2015

Company (in alphabetical order)	% ownership at 31/12/2015			% ownership at 31/12/2014		
	Control	Ownership	Consolidation method	Control	Ownership	Consolidation method
Companies included						
-	-	-	-	-	-	-
Companies excluded:						
AYESA ADVANCED TECHNOLOGIES, S.A.	-	-	-	22.00	22.00	EM
COMPAÑÍA TRANSPORTISTA DE GAS CANARIAS, S.A.	-	-	-	47.18	47.18	EM
OFICINA DE CAMBIOS DE SUMINISTRADOR, S.A.	-	-	-	20.00	20.00	EM
Changes:						
GORONA DEL VIENTO EL HIERRO, S.A.	23.21	23.21	EM	30.00	30.00	EM

EM: Equity method.

Appendix IV: Company investments forming part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

Subsidiaries

Company (in alphabetical order)	% ownership at 27/07/2016			Registered offices	Activity	Auditor
	Control	Ownership	Consolidation method			
AGUILÓN 20, S.A.	51.00	51.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ALMUSSAFES SERVICIOS ENERGÉTICOS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	BARCELONA (SPAIN)	CHP PLANTS	UNAUDITED
ENEL GREEN POWER GRANADILLA, S.L.	65.00	65.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	UNAUDITED
ENERGÍA DE LA LOMA, S.A.	64.07	64.07	FC	JAEN (SPAIN)	BIOMASS	ERNST & YOUNG
ENERGÍAS ALTERNATIVAS DEL SUR, S.L.	54.95	54.95	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS DE ARAGÓN II, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS DE GRAUS, S.L.	66.67	66.67	FC	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	ERNST & YOUNG
ENERGÍAS DE LA MANCHA ENEMAN, S.A.	68.42	68.42	FC	CIUDAD REAL (SPAIN)	BIOMASS	ERNST & YOUNG
ENERGÍAS ESPECIALES DE CAREÓN, S.A.	77.00	77.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DE PEÑA ARMADA, S.A.	80.00	80.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERGÍAS ESPECIALES DEL ALTO ULLA, S.A. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICA DEL NOROESTE, S.L.	51.00	51.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICA VALLE DEL EBRO, S.A.	50.50	50.50	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE AGAETE, S.L.	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE FUENCALIENTE, S.A.	55.00	55.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICOS DE TIRAJANA, A.I.E.	60.00	60.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS DE ESCUCHA, S.A.	70.00	70.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS EL PUERTO, S.A.	73.60	73.60	FC	TERUEL (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SASO PLANO, S.A.	65.00	65.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA COSTERA, S.A.	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EXPLOTACIONES EÓLICAS SIERRA LA VIRGEN, S.A.	90.00	90.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
HISPANO GENERACIÓN DE ENERGÍA SOLAR, S.L.	51.00	51.00	FC	BADAJOZ (SPAIN)	PHOTOVOLTAIC PLANT	UNAUDITED
PARAVENTO, S.L.	90.00	90.00	FC	LUGO (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARQUE EÓLICO A CAPELADA, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO ARAGÓN, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO BELMONTE, S.A.	50.16	50.16	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO CARRETERA DE ARINAGA, S.A.	80.00	80.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE BARBANZA, S.A.	75.00	75.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE SAN ANDRÉS, S.A.	82.00	82.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO DE SANTA LUCÍA, S.A.	66.33	66.33	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO FINCA DE MOGÁN, S.A.	90.00	90.00	FC	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO MONTES DE LAS NAVAS, S.A.	75.50	75.50	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO PUNTA DE TENO, S.A.	52.00	52.00	FC	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PARQUE EÓLICO SIERRA DEL MADERO, S.A.	58.00	58.00	FC	MADRID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PLANTA EÓLICA EUROPEA, S.A.	56.12	56.12	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍA RENOVABLE, S.A.	85.00	85.00	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PRODUCTOR REGIONAL DE ENERGÍAS RENOVABLES III, S.A.	82.89	82.89	FC	VALLADOLID (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
PROMOCIONES ENERGÉTICAS DEL BIERZO, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LEÓN (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SERRA DO MONCOSO-CAMBÁS, S.L. (SOLE SHAREHOLDER COMPANY)	100.00	100.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SISTEMAS ENERGÉTICOS MAÑÓN ORTIGUEIRA, S.A.	96.00	96.00	FC	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	ERNST & YOUNG
SOCIEDAD EÓLICA DE ANDALUCÍA, S.A.	64.73	64.73	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOCIEDAD EÓLICA LOS LANCES, S.A.	60.00	60.00	FC	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
VIRULEIROS, S.L.	67.00	67.00	FC	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	UNAUDITED

IG: Full consolidation

Joint ventures and associates

Company (in alphabetical order)	% ownership at 27/07/2016 Control	Ownership	Consolidation method	Registered offices	Activity	Auditor
BOIRO ENERGÍA, S.A.	40.00	40.00	MP	LA CORUÑA (SPAIN)	RENEWABLE ENERGY	[DELOITTE
CENTRAL HIDRÁULICA GÜEJAR-SIERRA, S.L.	33.33	33.33	MP	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	GATT AUDITORES
COGENERACIÓN EL SALTO, S.L. (IN LIQUIDATION)	20.00	20.00	MP	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
COMPAÑÍA EÓLICA TIERRAS ALTAS, S.A.	37.51	37.51	MP	SORIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
CONSORCIO EÓLICO MARINO CABO DE TRAFALGAR, S.L.	50.00	50.00	MP	CADIZ (SPAIN)	SEA WIND FARMS	UNAUDITED
CORPORACIÓN EÓLICA DE ZARAGOZA, S.L.	25.00	25.00	MP	ZARAGOZA (SPAIN)	WIND FARM PROJECTS	PWC
DEPURACIÓN DESTILACIÓN RECICLAJE, S.L.	40.00	40.00	MP	LA CORUÑA (SPAIN)	RECYCLING PLANT	[DELOITTE
ENERGÍAS ESPECIALES DEL BIERZO, S.A.	50.00	50.00	MP	LEÓN (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
ENERLASA, S.A. (IN LIQUIDATION)	45.00	45.00	MP	MADRID (SPAIN)	RENEWABLE ENERGY	UNAUDITED
EÓLICA DEL PRINCIPADO, S.A.	40.00	40.00	MP	ASTURIAS (SPAIN)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE FUERTEVENTURA, A.I.E.	40.00	40.00	MP	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
EÓLICAS DE LANZAROTE, S.L.	40.00	40.00	MP	LAS PALMAS DE GRAN CANARIA (SPAIN)	WIND FARM PROJECTS	LUJAN AUDITORES
EÓLICAS DE LA PATAGONIA, S.A.	50.00	50.00	MP	CAPITAL FEDERAL (ARGENTINA)	WIND FARM PROJECTS	UNAUDITED
EÓLICAS DE TENERIFE, A.I.E.	50.00	50.00	EM	SANTA CRUZ DE TENERIFE (SPAIN)	WIND FARM PROJECTS	ANCERO AUDITORES
ERECOSALZ, S.L.	33.00	33.00	MP	ZARAGOZA (SPAIN)	CHP PLANTS	UNAUDITED
HIDROELÉCTRICA DE OUROL, S.L.	30.00	30.00	MP	LA CORUÑA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
MINICENTRALES DEL CANAL IMPERIAL-GALLUR, S.L.	36.50	36.50	MP	ZARAGOZA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
OXAGESA, A.I.E. (IN LIQUIDATION)	33.33	33.33	MP	TERUEL (SPAIN)	CHP PLANTS	UNAUDITED
PARC EOLIC LA TOSSA-LA MOLA D'EN PASCUAL, S.L.	30.00	30.00	MP	BARCELONA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PARC EOLIC LOS ALIGARS, S.L.	30.00	30.00	MP	BARCELONA (SPAIN)	WIND FARM PROJECTS	UNAUDITED
PRODUCTORA DE ENERGÍAS, S.A.	30.00	30.00	MP	BARCELONA (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
PROYECTOS UNIVERSITARIOS DE ENERGÍAS RENOVABLES, S.L.	33.33	33.33	MP	ALICANTE (SPAIN)	RENEWABLE ENERGY	UNAUDITED
SALTO DE SAN RAFAEL, S.L.	50.00	50.00	MP	SEVILLE (SPAIN)	HYDROELECTRIC POWER PLANT	UNAUDITED
SANTO ROSTRO COGENERACIÓN, S.A. (IN LIQUIDATION)	45.00	45.00	MP	SEVILLE (SPAIN)	CHP PLANTS	UNAUDITED
SISTEMA ELÉCTRICO DE CONEXIÓN VALCAIRE, S.L.	28.12	28.12	MP	MADRID (SPAIN)	HYDROELECTRIC POWER PLANT	KPMG AUDITORES
SOCIEDAD EÓLICA EL PUNTAL, S.L.	50.00	50.00	MP	SEVILLE (SPAIN)	WIND FARM PROJECTS	ERNST & YOUNG
SOTAVENTO GALICIA, S.A.	36.00	36.00	MP	LA CORUÑA (SPAIN)	WIND FARM PROJECTS	AUDIESA
TERMOTEC ENERGÍA, A.I.E. (IN LIQUIDATION)	45.00	45.00	MP	VALENCIA (SPAIN)	CHP PLANTS	UNAUDITED
TOLEDO PV, A.I.E.	33.33	33.33	MP	MADRID (SPAIN)	PHOTOVOLTAIC PLANT	PWC
UFEFYS, S.L. (IN LIQUIDATION)	40.00	40.00	MP	MADRID (SPAIN)	RENEWABLE ENERGY	UNAUDITED
YEDESA COGENERACIÓN, S.A. (IN LIQUIDATION)	40.00	40.00	MP	ALMERIA (SPAIN)	CHP PLANTS	UNAUDITED

EM: Equity method.

The 2016 Consolidated Annual Accounts (**Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes**) of **ENDESA, Sociedad Anónima and SUBSIDIARIES**, contained herein, were authorised for issue by the Board of Directors of ENDESA, S.A. on **22 February 2017** and are signed in conformity by all the Directors, pursuant to Article 253 of the Corporate Enterprises Act.

Borja Prado Eulate **Chairman**	**Francesco Starace** **Vice Chairman**
José Damián Bogas Gálvez **Chief Executive Officer**	**Alejandro Echevarría Busquet** **Director**
Livio Gallo **Director**	**Ignacio Garralda Ruiz de Velasco** **Director**
Francisco de Lacerda **Director**	**Alberto de Paoli** **Director**
Helena Revoredo Delvecchio **Director**	**Miquel Roca Junyent** **Director**
Enrico Viale **Director**	

Madrid, 22 February 2017

ENDESA, S.A.

and Subsidiaries

Consolidated Management Report for the year ended 31 December 2016

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

Madrid, 22 February 2017

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Contents

ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

ENDESA drew up this Consolidated Management Report for the year ended 31 December 2016 in accordance with the “Guidelines for drawing up Management Reports of Listed Companies” issued by the Group of Experts appointed by the Spanish Securities Market Commission (CNMV).

1. Position of the entity.

1.1. Main areas of business.

ENDESA, S.A. was incorporated on 18 November 1944, and its registered office is in Madrid, calle Ribera del Loira 60.

Its corporate purpose is the electricity business in all its various industrial and commercial areas, the exploitation of all types of primary energy resources, the provision of industrial services or services relating to its main area of business, particularly gas business, and those preliminary or supplementary to the corporate purpose and management of the corporate Group, comprising investments in other companies. The Company will carry out the activities constituting its corporate purpose in Spain and abroad, either directly or through investment in other companies.

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

ENDESA, S.A. and its subsidiaries (ENDESA or the "Company") operate in the electricity and gas business, mainly in the markets of Spain and Portugal. To a lesser extent, ENDESA also supplies electricity and gas in other European markets, and other value-added products and services (VAPS) related to its main business.

The organisation is divided into generation, supply and distribution activities, each of which includes electricity and, in certain cases, gas activities.

In view of the areas of business carried on by the subsidiaries of ENDESA, S.A., transactions are not highly cyclical or seasonal.

1.2. Organisational structure.

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

At 31 December 2016, the ENEL Group held 70.101% of the share capital in ENDESA, S.A., through ENEL Iberoamérica, S.L.U.

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

Position	Member
Chief Executive Officer	José Damián Bogas Gálvez
General Manager - 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 - Sales	Javier Uriarte Monereo
General Manager – Institutional Relations and Regulation	José Casas Marín
General Manager - Media	José Luis Puche Castillejo
General Manager - Nuclear Power	Juan Mª 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 I.

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

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

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

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

Market in Spain.

– **Generation**: ENDESA carries out its electricity generation activities in the mainland system and in Non-Mainland Territories ("TNP" in Spanish), which include the Balearic and Canary Islands and the self-governing cities of Ceuta and Melilla.

    o Electricity generation is a deregulated activity, although there can be generation with renewable energies with specific remuneration.

    o Meanwhile, generation in Non-Mainland Territories is subject to specific regulations which address the particular nature of their geographical location, and their remuneration is regulated.

– **Supply of electricity, gas and value-added services and products (VAPS or "PSVA" in Spanish)**: This activity consists of supplying energy on the market and value added services and products (VAPS) to customers. The supply of energy is a deregulated activity.

– **Distribution of electricity**: The purpose of the electricity distribution activity is to distribute electricity to the consumption points. Electricity distribution is a regulated activity.

Section 2.5. Statistical Appendix to this Consolidated Management Report provides a breakdown of ENDESA's main figures at 31 December 2016.

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.

At 31 December 2016, Endesa's installed capacity at ordinary regime facilities was 21,069 MW, of which, 16,495 MW corresponded to the mainland electricity system and the remaining 4,574 MW to Non-Mainland Territories of the 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, ENDESA had total net output in 2016 of 69,831 GWh (see Section 2.5 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., which engages in regulated electricity distribution activities, and ENDESA Ingeniería, S.L.U. (100%).

At 31 December 2016 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 194,687 km^2 with a total population of nearly 22 million. ENDESA had over 12 million distribution customers, and in 2016, its network supplied a total power output of 115,602 GWh, measured at busbar cost (see Section 2.5. Statistical Appendix to this Consolidated Management Report).

Energy supply: ENDESA Energía, S.A.U.

ENDESA Energía, S.A.U. was set up on 3 February 1998 to carry out supply activities, responding to the demands of Spanish electricity market deregulation. Its main business is the supply of energy and added-value products and services (VASP) to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market.

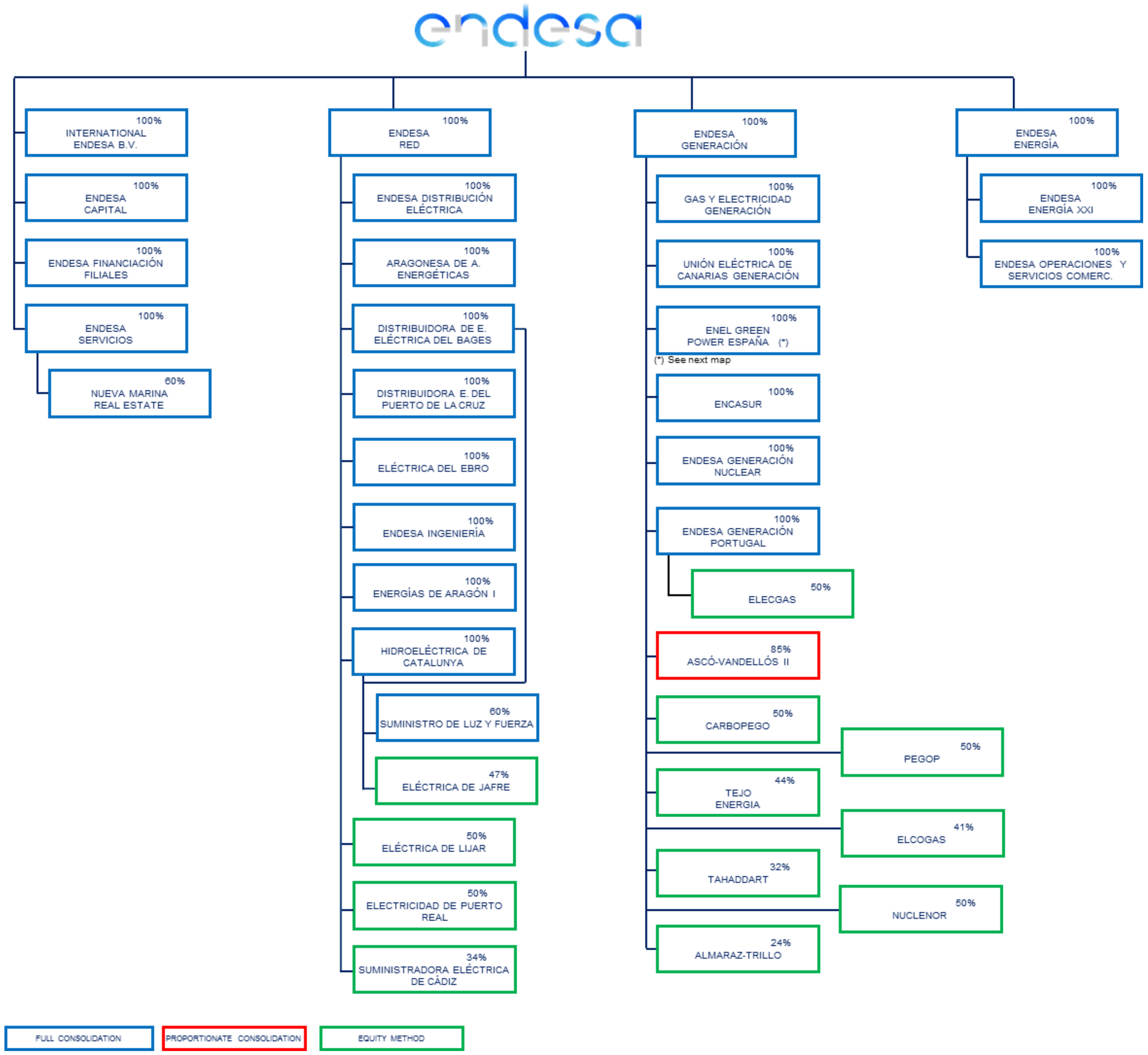
ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., a company acting as a reference supplier for ENDESA and ENDESA Operaciones y Servicios Comerciales, S.L.U. which provides commercial services in relation to the supply of power. ENDESA Energía, S.A.U. supplies the deregulated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

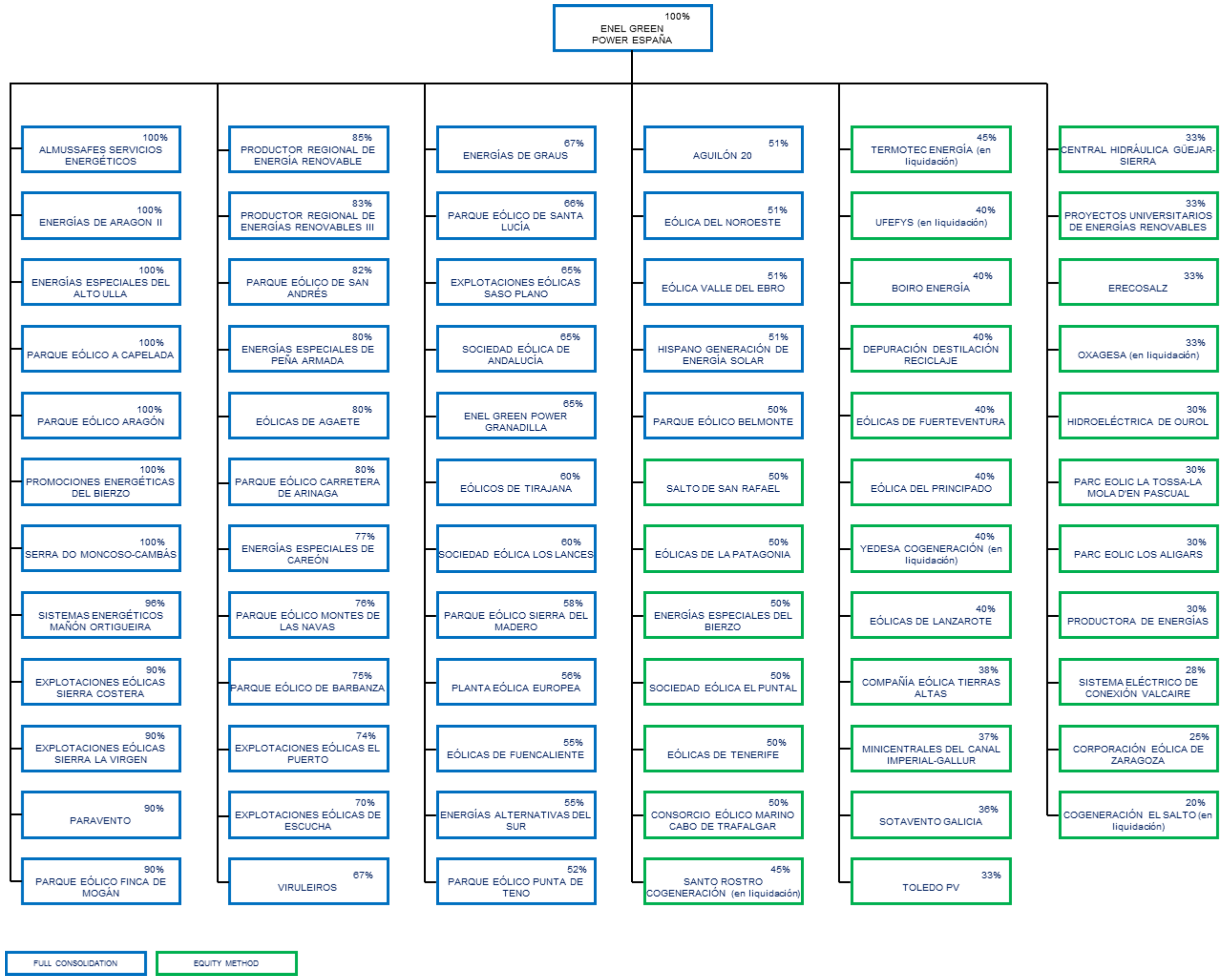
In 2016, ENDESA provided 93,490 GWh to 11.0 million supply points in the electricity market. ENDESA supplied total gas of 78,129 GWh in 2016, and at 31 December 2016, its customer portfolio in the conventional natural gas market was made up of 1.5 million supply points (see Section 2.5. Statistical Appendix to this Consolidated Management Report).

Appendix I to the Consolidated Financial Statements for the year ended 31 December 2016 lists ENDESA's Subsidiaries and Joint Operation Entities.

Appendix II to the Consolidated Financial Statements for the year ended 31 December 2016 lists ENDESA's Associates and Joint Ventures.

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2016:





2. Business trends and results in 2016.

2.1. Acquisition of ENEL Green Power España, S.L.U. (EPGE)

On 27 July 2016 ENDESA Generación S.A.U., a company wholly owned by ENDESA S.A. (ENDESA), purchased a stake from ENEL Green Power International B.V. of 60% of ENEL Green Power España, S.L.U. (EGPE), a company in which it had previously held a 40% stake.

ENEL Green Power España, S.L.U. (EGPE) engages, directly or through companies it controls, in the production of electricity using renewable energy sources in Spain. It currently has approximately 91 wind power, hydroelectric and solar plants, with total installed capacity of 1,675 MW at 31 December 2016 and output of 3,704 GWh in 2016.

When the purchase materialised, it enabled ENDESA to take control of ENEL Green Power España, S.L.U. (EGPE), boosting the significant influence it already had via its 40% holding. The takeover did not lead to any changes in the corporate name of ENEL Green Power España, S.L.U. (EGPE).

Appendix IV to the Consolidated Financial Statements for the year ended 31 December 2016 lists the companies forming part of ENEL Green Power España, S.L.U. (EGPE) at the purchase date.

ENDESA's objective with this proposed acquisition is to reinforce its presence in the Iberian generation market by adding an attractive portfolio of renewable electricity production assets to its production mix.

The purchase price for the 60% holding was Euros 1,207 million, and was paid in full on 27 July 2016. To make the payment, ENDESA, S.A. issued Euro Commercial Paper (ECP) through International ENDESA, B.V., the renewals of which are backed by irrevocable lines of bank credit in the amount of Euros 1,200 million, and completed the amount with an additional drawdown on these lines (see Section 4.1. Financial Management of this Consolidated Management Report). ENDESA, S.A. used the habitual intercompany operation to finance ENDESA Generación, S.A.U.

The net cash outflow from the acquisition of 60% of ENEL Green Power España, S.L.U. (EGPE) was as follows:

Millions of Euros	
Cash and cash equivalents of the acquiree	(31)
Net amount paid in cash (*)	1,209
TOTAL	**1,178**

(*) Includes purchase costs booked under "Other fixed operating expenses" on the consolidated income statement in the amount of Euros 2 million.

In order to add ENEL Green Power España, S.L.U. (EGPE) to ENDESA's Consolidated Financial Statements, the purchase price was provisionally booked, on the basis of the fair value of the assets acquired and the liabilities undertaken (Net Assets Acquired) from ENEL Green Power España, S.L.U. (EGPE) at the purchase date under the following headings of the Consolidated Financial Statements:

Millions of Euros	
Non-current assets	**2,328**
Property, Plant and Equipment	1,248
Intangible Assets	757
Investments Accounted for using the Equity Method	34
Non-current Financial Assets	252
Deferred Tax Assets	37
Current assets	**143**
Inventories	29
Trade and other receivables	70
Current Financial Assets	13
Cash and Cash Equivalents	31
Non-current assets held for sale and discontinued operations	-
TOTAL ASSETS	**2,471**
NON-CONTROLLING INTERESTS	**148**
Non-current liabilities	**445**
Deferred income	9
Non-current Provisions	55
Non-current Interest-Bearing Loans and Borrowings	141
Other Non-current Liabilities	9
Deferred Tax Liabilities	231
Current liabilities	**164**
Current Interest-Bearing Loans and Borrowings	86
Trade and other Payables	78
Liabilities Associated with Non-current Assets Classified as held for Sale and Discontinued Operations	-
TOTAL LIABILITIES	**609**
Fair value of net assets acquired	**1,714**

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 provisional goodwill in the amount of Euros 298 million.

At 31 December 2016, not even one year after the purchase of ENEL Green Power España, S.L.U. (EGPE), the business combination had been entered in accounts on a provisional basis pending determination of the final conclusions concerning the appraisal of certain compensatory assets and contingent liabilities.

At the date on which this Consolidated Management Report was drawn up, therefore, ENDESA was still working on the final assignation of the purchase price, and this is expected to be completed within the timeframe of one year from the purchase date.

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

Millions of Euros

	2016	2015
Net profit from previous 40% stake (1)	7	10
Net profit from 100% stake (2)	-	N/A
Income	118	N/A
Contribution margin	104	N/A
Gross operating profit (EBITDA) (3)	75	N/A
Operating profit (EBIT) (4)	16	N/A
Net profit/loss of companies accounted for using the equity method and others Investment	4	N/A
Income tax	6	N/A
Impairment in the shareholding (5)	(72)	-
Net result of fair value appraisal (6)	(4)	N/A
Reversal of deferred tax liabilities (7)	81	-
TOTAL	**38**	**10**

(1) Corresponds to the previous 40% stake up to 27 July 2016, the date of the takeover.
(2) Corresponds to the 100% stake from 27 July 2016, the date of the takeover, to 31 December 2016.
(3) Gross operating profit (EBITDA) = Income - Supplies and Services + Work carried out by the Group for its assets – Personnel expenses – Other fixed operating expenses.
(4) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and impairment losses.
(5) This corresponds to the booking of impairment of Euros 72 million prior to the takeover, considering that the recovery value of ENDESA's 40% holding in ENEL Green Power España, S.L.U. (EGPE) was lower than the carrying amount.
(6) This corresponds to the 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).
(7) 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, which met the requirements for recognition.

At 31 December 2016 the main figures for ENEL Green Power España, S.L.U. (EGPE) were as follows:

	2016
Electricity Generation (GWh) (1)	1,212
Net installed capacity (MW) (2)	1,675
Electricity sales (GWh) (1)	1,212

(1) Since the date of the takeover, 27 July 2016.
(2) At 31 December 2016.

2.2. Consolidated results.

ENDESA reported net income of Euros 1,411 million in 2016 (+29.9%).

ENDESA reported net income of Euros 1,411 million in 2016, up by 29.9% against the Euros 1,086 million reported in 2015.

Net profit in 2016 includes a positive net impact of Euros 38 million from ENDESA's holding in ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report). Net profit in 2015 also includes profit of Euros 10 million from the 40% stake in ENEL Green Power España, S.L.U. (EGPE).

The table below shows the breakdown of net income in ENDESA's businesses and changes with respect to the same period the previous year:

Million Euros

		Net income			
		2016	2015	% chg	% contribution to the total
Generation and Supply	(1)	751	506	48.4	53.2
Distribution		771	581	32.7	54.6
Structure and others	(2)	(111)	(1)	N/A	(7.8)
TOTAL		**1,411**	**1,086**	**29.9**	**100.0**

(1) Includes net profit generated by ENEL Green Power España, S.L.U. (EGPE) in 2016 and 2015, in the respective amounts of Euros 38 million and 10 million.
(2) Structure, Services and Adjustments.

Information by segments may be found in Note 33 to the Consolidated Financial Statements for the year ended 31 December 2016, and the main figures are as follows:

Million Euros

	2016				2015			
	Generation and Supply	Distribution	Structure and others (1)	TOTAL	Generation and Supply	Distribution	Structure and others (1)	TOTAL
Revenue	16,628	2,538	(187)	18,979	17,911	2,582	(194)	20,299
Contribution margin	3,344	2,399	(91)	5,652	3,113	2,445	(77)	5,481
Gross operating profit (EBITDA)(2)	1,850	1,788	(206)	3,432	1,570	1,569	(100)	3,039
Operating profit (EBIT)(3)	1,065	1,131	(231)	1,965	814	906	(122)	1,598
Net financial profit/(loss)	(154)	(123)	95	(182)	(157)	(129)	100	(186)
Profit/(loss) before tax	822	1,020	(132)	1,710	623	786	(18)	1,391
Net gain/(loss)	751	771	(111)	1,411	506	581	(1)	1,086

(1) Structure, Services and Adjustments.
(2) Gross operating profit (EBITDA) = Income - Supplies 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 impairment losses.

2.3. Analysis of results.

ENDESA's contribution margin in 2016 was Euros 5,652 million, up by Euros 171 million against the previous year (+3.1%). Gross operating profit (EBITDA) in 2016 was Euros 3,432 million (+12.9%), and operating profit (EBIT) increased by Euros 367 million (+23.0%) with respect to 2015, standing at Euros 1,965 million.

The table below shows the breakdown of gross operating profit (EBITDA) and operating profit (EBIT) in ENDESA’s businesses and their year-on-year changes:

Million Euros

	Gross operating profit (EBITDA) (3)				Operating profit (EBIT) (4)			
	2016	2015	% chg	% contribution to total	2016	2015	% chg	% contribution to total
Generation and Supply (1)	1,850	1,570	17.8	53.9	1,065	814	30.8	54.2
Distribution	1,788	1,569	14.0	52.1	1,131	906	24.8	57.6
Structure and others (2)	(206)	(100)	N/A	(6.0)	(231)	(122)	N/A	(11.8)
TOTAL	**3,432**	**3,039**	**12.9**	**100.0**	**1,965**	**1,598**	**23.0**	**100.0**

(1) In 2016 this includes gross operating profit (EBITDA) and operating profit (EBIT) generated by ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the respective amounts of Euros 75 million and 16 million.
(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 fixed operating expenses.
(4) Operating profit (EBIT) = Gross operating profit (EBITDA) - Depreciation and impairment losses.

The following factors must be taken into account concerning gross operating profit (EBITDA) for 2016:

– Consideration must be taken of the 2016 takeover of ENEL Green Power España, S.L.U. (EGPE), the contribution of which to gross operating profit (EBITDA) since 27 July 2016 was Euros 75 million.

– In 2015, gross operating profit (EBITDA) included profit of Euros 184 million from the forward sale on 17 December 2015 concerning the European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) as per Regulation (EU) No 389/2013, Articles 58-61.

– Provision of Euros 226 million was made in 2016 and Euros 380 million in 2015 to cover the costs of staff reduction schemes as part of the various workforce optimisation projects in ENDESA's restructuring and reorganisation plan.

Stripping out these impacts, gross operating profit (EBITDA) in 2016 was up by Euros 348 million (+10.8%), due mainly to:

- Lower fuel consumption (-22.2%) and, due to lower liquid fuel prices, and fewer energy purchases (-15.4%), which was higher than the decrease in the average selling price.
- A fall of Euros 313 million in other variable supplies and services (-14.8%) mainly as the result of lower expenditure on emissions of carbon dioxide (CO_2) due to lower thermal output during the period, lower charges and taxes on electricity production due to lower production during the period, and regularisation of Catalonia's nuclear tax in the wake of the Constitutional Court ruling on 20 April 2016 declaring this unconstitutional (Euros 88 million).

Operating profit (EBIT) in 2016 was up by 23.0% against the previous year and stood at Euros 1,965 million, despite a 1.8% increase in depreciation and impairment losses, mainly due to the Euros 59 million increase following the takeover of ENEL Green Power España, S.L.U. (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).

Stripping out the takeover of ENEL Green Power España, S.L.U. (EGPE), the swap of carbon dioxide (CO_2) emission rights and the costs of the staff reduction plans referred to above, operating profit (EBIT) in 2016 increased by Euros 381 million (+21.2%).

Revenue: Euros 18,979 million (-6.5%).

Revenue totalled Euros 18,979 million in 2016 versus Euros 20,299 million in 2015, a decrease of 6.5%. Of this amount, revenue from sales accounted for Euros 18,313 million (-5.0%), while other operating income accounted for Euros 666 million (-34.6%). The table below shows the breakdown of sales and other operating revenues of ENDESA's businesses and their year-on-year changes:

Million Euros

		Sales				Other Operating Income			
		2016	2015	% chg	% contribution to total	2016	2015	% chg	% contribution to total
Generation and Supply	(1)	16,190	17,166	(5.7)	88.4	438	745	(41.2)	65.8
Distribution		2,268	2,264	0.2	12.4	270	318	(15.1)	40.5
Structure and others	(2)	(145)	(149)	N/A	(0.8)	(42)	(45)	N/A	(6.3)
TOTAL		**18,313**	**19,281**	**(5.0)**	**100.0**	**666**	**1,018**	**(34.6)**	**100.0**

(1) Includes the 2016 sales of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 118 million.
(2) Structure, Services and Adjustments.

Sales

Sales in 2016 were as follows:

Million Euros

	Sales (1)			
	2016	2015	Difference	%Var
Electricity Sales	13,541	14,168	(627)	(4.4)
Deregulated market sales	8,213	8,425	(212)	(2.5)
Supplies to customers in deregulated markets outside Spain	961	987	(26)	(2.6)
Sales at regulated prices	2,412	2,885	(473)	(16.4)
Wholesale Market Sales	875	815	60	7.4
Non-mainland Territories compensation	1,015	1,044	(29)	(2.8)
Other Electricity Sales	65	12	53	441.7
Gas Sales	2,079	2,378	(299)	(12.6)
Regulated Revenue from Electricity Distribution	2,054	2,048	6	0.3
Other Sales and Services Rendered	639	687	(48)	(7.0)
TOTAL	**18,313**	**19,281**	**(968)**	**(5.0)**

(1) In 2016 this includes the sales of ENEL Green Power España, S.L.U. (EGPE) since the takeover date, 27 July 2016, in the amount of Euros 118 million.

In 2016 mainland electricity demand continued the growth trajectory initiated in 2015 after 4 consecutive years of decreases, and rose by 0.6% against the previous year. Mainland electricity demand shrank by 0.1% against the previous year, corrected for working days and temperature. Overall non-mainland annual electricity demand ended 2016 with a 1.1% increase against the previous year.

The year 2016 featured low prices, where the arithmetic average price on the wholesale electricity market was Euros 39,7/MWh (-21.2%), mainly due to an increase in wind and hydro output covering more than 40% of mainland electricity demand, and also low commodity prices. For the first time since 2003, part of demand for electricity was covered by the import balance of international exchanges.

ENDESA's mainland ordinary regime electricity output totalled 55,985 GWh in 2016, 7.7% less than in 2015, as follows: coal plants (-21.6%), combined-cycle plants (+11.0%), nuclear plants (+0.6%) and hydroelectric (+0.0%).

Nuclear and hydroelectric energy accounted for 59.1% of ENDESA's mainland generation mix under the ordinary regime (54.3% in 2015), compared with 62.0% for the rest of the sector (52.0% in 2015).

ENDESA's production in 2016 with renewable technologies was 1,212 GWh, and non-mainland production was 12,634 GWh (+2.1%).

At 31 December 2016, ENDESA had obtained a market share of 35.1% of mainland generation under the ordinary regime, a 43.7% share of distribution and a 35.3% share of sales to customers in the deregulated market.

In 2016, gas demand was up by 2.1% year on year, and at 31 December 2016 ENDESA had secured a market share of 16.9% in sales to customers in the deregulated market.

Sales to customers in the deregulated market

At 31 December 2016, ENDESA had 5,423,040 customers in the deregulated market, a 6.7% increase on numbers at 31 December 2015:

ENDESA sold a total of 79,675 GWh to these customers in 2016, a 2.2% increase on 2015.

In economic terms, sales in the Spanish deregulated market amounted to Euros 8,213 million in 2016, Euros 212 million less than in 2015 (-2.5%), because the increase in physical units sold failed to offset the decrease in the average sales price to end customers. Revenue from sales to deregulated European markets other than Spain totalled Euros 961 million, down by Euros 26 million (-2.6%) vs. 2015, also due to the fall in the average selling price.

Sales at regulated prices

In 2016 ENDESA sold 13,815 GWh, through its supplier of reference, to customers to whom the regulated price applies, 7.5% less than in 2015. These sales generated revenue of Euros 2,412 million, down by 16.4% in year-on-year terms, as a result of fewer sales of physical units and the lower average selling price.

Gas sales

ENDESA sold 78,129 GWh to natural gas customers in 2016, which represents a 9.1% increase on 2015, mainly thanks to a 30.5% increase in sales on markets out of Spain.

Revenue from gas sales totalled Euros 2,079 million, down by Euros 299 million (-12.6%) against 2015 figure, due to the drop in average selling prices.

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

Compensation in 2016 for the stranded costs of non-mainland generation totalled Euros 1,015 million, down by Euros 29 million (-2.8%) against 2015, due mainly to the drop in fuel prices brought about by changing commodity prices.

Electricity distribution

ENDESA distributed 115,602 GWh in the Spanish market in 2016, in keeping with the energy distributed in 2015 (+1.2%).

Revenue from regulated distribution activities in 2016 totalled Euro 2,054 million, up by Euros 6 million (+0.3%) on 2015.

Other operating revenues

Other operating revenues totalled Euros 666 million in 2016, down Euros 352 million year on year (-34.6%).

2016 also saw a reduction of Euros 102 million in income from the valuation and settlement of energy derivatives, offset by the Euro 177 million reduction in valuation expenses and losses on the settlement of energy derivatives booked as other variable procurements and services.

In 2015, this item also included a gain of Euros 184 million from the forward sale of 25 million tonnes of European Union Allowances (EUAs) obtained in the Emission Reduction Units (ERUs) / Certified Emission Reductions (CERs) swap operation.

Operating expenses

The breakdown of operating expenses in 2016 is as follows:

Million Euros

	Operating expenses			
	2016 (1)	2015	Difference	% Chg
Procurement and services	13,327	14,818	(1,491)	(10.1)
Fuel stock purchases	4,056	4,795	(739)	(15.4)
Fuel consumption	1,652	2,123	(471)	(22.2)
Transport costs	5,813	5,781	32	0.6
Other variable procurements and services	1,806	2,119	(313)	(14.8)
Personnel expenses	1,128	1,332	(204)	(15.3)
Other Fixed Operating Expenses	1,209	1,212	(3)	(0.2)
Depreciation and impairment losses	1,467	1,441	26	1.8
TOTAL	**17,131**	**18,803**	**(1,672)**	**(8.9)**

(1) In 2016 this included the operating expenses of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 102 million.

Procurements and services

Procurements and services (variable costs) totalled Euros 13,327 million in 2016, down by 10.1% against 2015.

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

Million Euros

	Procurement and services			
	2016	2015	% chg	% Contribution of the total
Generation and Supply (1)	13,284	14,798	(10.2)	99.7
Distribution	139	137	1.5	1.0
Structure and Others (2)	(96)	(117)	N/A	(0.7)
TOTAL	**13,327**	**14,818**	**(10.1)**	**100.0**

(1) In 2016 this includes the procurements and services of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 14 million.
(2) Structure, Services and Adjustments.

Details of these costs are as follows:

- Fuel stock purchases in 2016 dropped by Euros 739 million (-15.4%) to Euros 4,056 million, largely as a result of the reduction in the average purchase price of electricity in the market (Euros 39,7/MWh, down 21.2%) and in the volume of gas acquired for sale to end customers.

- The cost of the fuel consumed in 2016 was Euros 1,652 million, down 22.2% (Euros 471 million) due to the drop in thermal output in the period and the fall in the average purchase price.

- "Other variable procurements and services" totalled Euros 1,806 million, down Euros 313 million on 2015, mainly due to:

  - The decrease of Euros 177 million (-39.8%) in valuation expenses and settlement of energy derivatives, offset by a Euros 102 million decrease (-23.9%) in income in this connection, which is recognised under "Other operating income".

  - The decrease of Euros 53 million in the costs of carbon dioxide (CO_2) emission rights due to lower thermal output.

  - A fall of Euros 130 million in charges and taxes as a result of lower tax on electricity generation due to lower production during the period, and regularisation of the amount Catalonia's nuclear tax in the wake of the Constitutional Court ruling on 20 April 2016 declaring this unconstitutional (Euros 88 million).

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

Million Euros

		Contribution margin (3)			
		2016	2015	% chg	% contributions to the total
Generation and Supply	(1)	3,344	3,113	7.4	59.2
Distribution		2,399	2,445	(1.9)	42.4
Structure and others	(2)	(91)	(77)	N/A	(1.6)
TOTAL		**5,652**	**5,481**	**3.1**	**100.0**

(1) In 2016 this included the contribution margin by ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 104 million.
(2) Structure, Services and Adjustments.
(3) Contribution margin = income - procurements and services.

Personnel and other operating fixed expenses (fixed costs)

Fixed costs amounted to Euros 2,337 million in 2016, down by Euros 207 million (-8.1%) with respect to 2015.

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

Million Euros

		Personnel expenses				Other Fixed Operating Expenses			
		2016	2015	% chg	% contribution to total	2016	2015	% chg	% contribution to total
Generation and Supply	(1)	544	549	(0.9)	48.2	958	999	(4.1)	79.2
Distribution		321	555	(42.2)	28.5	396	418	(5.3)	32.8
Structure and Others	(2)	263	228	15.4	23.3	(145)	(205)	(29.3)	(12.0)
TOTAL		**1,128**	**1,332**	**(15.3)**	**100.0**	**1,209**	**1,212**	**(0.2)**	**100.0**

(1) In 2016 this included staff costs and other fixed operating expenses of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the respective amounts of Euros 7 million and 22 million.
(2) Structure, Services and Adjustments.

Personnel expenses in 2016 stood at Euros 1,128 million, down by Euros 204 million (-15.3%) with respect to 2015.

Personnel expenses in both 2016 and 2015 were affected by the changes in provisions and staff restructuring expenses booked in both years, particularly the allocation of provisions for contract suspensions (Euros 226 million in 2016 and Euros 380 million in 2015), the evolution of the update of provisions for workforce restructuring plans and contract suspensions (Euros 17 million in 2016 and Euros 19 million in 2015, both positive), and reduction of provisions to cover termination benefits and employment risks (net provision of Euros 14 million in 2016 and Euros 42 million in 2015).

Stripping out these impacts and the addition of ENEL Green Power España, S.L.U. (EGPE), personnel expenses would have fallen by Euros 31 million (-3.3%), largely due to a 4.1% reduction in the average workforce.

Other fixed operating expenses in 2016 totalled Euros 1,209 million, down by Euros 3 million (-0.2%), (-2.1%) stripping out the effect of the incorporation of ENEL Green Power España, S.L.U. (EGPE), with respect to the previous year.

Depreciation/amortisation and impairment losses

Depreciation/amortisation charges and impairment losses totalled Euros 1,467 million in 2016, Euros 26 million more (+1.8%) than in 2015, chiefly due to the following:

- The addition of ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report, where the cumulative cost as of the date of the takeover was Euros 59 million.

- Net provision for asset impairment losses of Euros 17 million, of which Euros 12 million were accounted for by reversals of provision in previous years in respect of generating and distribution assets, and Euros 29 million for the impairment of land assets on the basis of an appraisal by independent experts. In 2015 this included net provision for asset impairment in the amount of Euros 53 million.

Stripping out these affects, depreciation and impairment losses would have totalled Euros 1,391 million (+0.2%).

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

Million Euros

	Depreciation and impairment losses			
	2016	**2015**	**% chg**	**% Contribution of the total**
Generation and Supply (1)	785	756	3.8	53.5
Distribution	657	663	(0.9)	44.8
Structure and Others (2)	25	22	13.6	1.7
TOTAL	**1,467**	**1,441**	**1.8**	**100.0**

(1) In 2016 this includes the depreciation and impairment losses of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 59 million.
(2) Structure, Services and Adjustments.

Net financial loss: Euros 182 million (-2.2%).

Net financial income reported for 2016 was a negative Euros 182 million, a year-on-year decrease of Euros 4 million (-2.2%). The breakdown of net financial income in 2016 was as follows:

Million Euros

	Net financial profit/(loss)			
	2016	**2015**	**% chg**	**% Contribution of the total**
Financial Income	44	55	(20.0)	(24.2)
Financial expenses	(222)	(229)	(3.1)	122.0
Net Exchange Differences	(4)	(12)	(66.7)	2.2
TOTAL (1)	**(182)**	**(186)**	**(2.2)**	**100.0**

(1) The net financial income of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016 was negligible.

In 2016 net financial expenses totalled Euros 178 million, up Euros 4 million (+2.3%) year on year.

Movements in long-term interest rates in both 2016 and 2015 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and for contraction suspensions, entailing higher costs in the amount of Euros 45 million in 2016.

Stripping out the impacts referred to in the preceding sections, net financial expenses would have shed Euros 41 million (-23.6%) due to:

- Lower average gross financial debt in both periods, falling from Euros 5,946 million in 2015 to Euros 5,191 million in 2016.
- Lower average cost of gross financial debt, which fell from 2.7% in 2015 to 2.5% in 2016 (see section 4.1. Financial Management of this Consolidated Management Report).

Net income of companies accounted for using the equity method.

In 2016, companies accounted for using the equity method contributed a net income of Euros 59 million (negative), compared to Euros 15 million (negative) in 2015.

In 2016 this included the net income of ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 69 million, broken down as follows:.

- A positive Euros 7 million in respect of net income generated by the previous 40% stake in the company up to the takeover.
- 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) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) of this Consolidated Management Report), after 27 July 2016 the equity method was no longer used to book the results of ENEL Green Power España, S.L.U. (EGPE), and the full consolidation method was used instead.

In 2015, this item included net income of Euros 10 million from the 40% stake in ENEL Green Power España, S.L.U. (EGPE).

In addition, in 2016 and 2015, this heading also included a negative impact of Euros 38 million and 58 million respectively for the 50% holding in Nuclenor, S.A. due to the recognition of provision to be incurred by this company given the additional timeframe for the Nuclear Safety Council (CSN) and the decision by the Ministry of Energy, Tourism and Digital Agenda to issue its statutory report on the request to renew the operating licence for the Santa María de Garoña nuclear power plant.

Income from asset sales.

In 2016, this item mainly included expenditure on commissions on factoring operations in the amount of Euros 25 million (Euros 23 million in 2015).

In 2015, this item included gross capital gains of Euros 11 million on sales of assets associated with the Chira-Soria hydro plant, 100% of the shares in Compañía Transportista de Gas Canarias, S.A., the 22% holding in Ayesa Advanced Technologies, S.A. and the 100% stake held by ENDESA in Gasificadora Regional Canaria, S.A.

Income tax

Expenditure on income tax in 2016 stood at Euros 298 million, down by Euros 3 million against 2015 (-1.0%).

In 2016, following the takeover of ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report), deferred tax liabilities were reversed 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, which met the requirements for recognition.

Stripping out the impacts referred to in the preceding paragraph, expenditure on income tax would be Euros 379 million (+25.9%).

2.4. Consolidation scope

On 30 March 2016, ENDESA made a purchase from EDP – Gestão de Produção de Energia, S.A. of 48.854 shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A., in which ENDESA previously held a stake of 38.89%. As a result of the transaction, the consideration of which amounted to Euros 7 million, ENDESA has increased its investment in the share capital of Tejo Energia - Produção e Distribução de Energia Eléctrica, S.A to 43.75%.

On 24 May 2016, ENDESA sold its entire stake in ENEL Insurance N.V., representing 50% of its share capital, to ENEL Investment Holding B.V. in a deal worth a total of Euros 114 million. The transaction had no impact on the 2016 consolidated income statement.

On 27 July 2016, ENDESA Generación S.A.U. bought up 60% of ENEL Green Power España, S.L.U. (EGPE), a company in which it had previously held a 40% stake (see section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).

On 28 July 2016, ENDESA purchased all the shares of Eléctrica del Ebro, S.A. for Euros 21 million. The purchase price was finally booked, on the basis of the fair value of the assets acquired and the liabilities undertaken (Net Assets Acquired) from Eléctrica del Ebro, S.A., under the following headings in the Consolidated Financial Statements:

Million Euros	
Non-current assets	**27**
Property, Plant and Equipment	26
Deferred Tax Assets	1
Current assets	**6**
Trade and other receivables	3
Current Financial Assets	1
Cash and Cash Equivalents	2
TOTAL ASSETS	**33**
Non-current liabilities	**8**
Deferred income	3
Deferred Tax Liabilities	5
Current liabilities	**6**
Current Provisions	2
Trade and other Payables	4
TOTAL LIABILITIES	**14**
Fair value of net assets acquired	**19**

The difference between the cost of the business combination and the fair value of these assets and liabilities generated goodwill of Euros 2 million.

On 29 December 2016 an agreement was closed with ENCE Energía y Celulosa, S.A. for the sale of a 64.07% holding in Energía de la Loma, S.A. and a 68.42% holding in Energías de la Mancha Eneman, S.A. The transaction had no impact on the 2016 consolidated income statement.

2.5. Statistical Appendix

Key figures

GWh

Electricity generation	2016	2015	% chg
Mainland	55,985	60,686	(7.7)
Nuclear	25,921	25,756	0.6
Coal	19,033	24,277	(21.6)
Hydroelectric	7,173	7,176	-
Combined-cycle (CCGT)	3,858	3,477	11.0
Non-Mainland Territories	12,634	12,375	2.1
Renewables and cogeneration (2)	1,212	-	N/A
TOTAL (1)	**69,831**	**73,061**	**(4.4)**

(1) At power plant busbars
(2) In 2016 corresponded to the energy generated by ENEL Green Power España, S.L.U. (EGPE) since the date of the takeover, 27 July 2016.

MW

Gross installed capacity	31 December 2016	31 December 2015	% chg
Hydroelectric	4,765	4,765	-
Conventional thermal	8,130	8,278	(1.8)
Nuclear	3,443	3,443	-
Combined cycle (CCGT)	5,678	5,678	-
Renewables and cogeneration (1)	1,675	-	N/A
TOTAL	**23,691**	**22,164**	**6.9**

(1) At 31 December 2016 this corresponded to the gross installed capacity of ENEL Green Power España, S.L.U. (EGPE).

MW

Net installed capacity	31 December 2016	31 December 2015	% chg
Hydroelectric	4,721	4,721	-
Conventional thermal	7,585	7,723	(1.8)
Nuclear	3,318	3,318	-
Combined cycle (CCGT)	5,445	5,445	-
Renewables and cogeneration (1)	1,675	-	N/A
TOTAL	**22,744**	**21,207**	7.2

(1) At 31 December 2016 this corresponded to the net installed capacity of ENEL Green Power España, S.L.U. (EGPE).

GWh

Electricity sales	2016	2015	% chg
Regulated Price	13,815	14,934	(7.5)
Deregulated market	79,675	77,965	2.2
TOTAL	**93,490**	**92,899**	**0.6**

Thousands

Number of customers (electricity) (1)	31 December 2016	31 December 2015	% chg
Regulated market customers	5,593	6,029	(7.2)
Mainland Spain	4,692	5,053	(7.1)
Non-Mainland Territories	901	976	(7.7)
Supply on the deregulated market	5,423	5,083	6.7
Mainland Spain	4,505	4,212	7.0
Non-Mainland Territories	744	693	7.4
Outside Spain	174	178	(2.2)
TOTAL	**11,016**	**11,112**	**(0.9)**

(1) Supply points.

Percentage (%)

Trends in demand for electricity (1)	2016	2015
Mainland (2)	0.6	1.8

(1) Source: Red Eléctrica de España, S.A. (REE).
(2) Adjusted for working days and temperature, trends in mainland electricity demand fell by -0.1% in 2016 (+1.6% in 2015).

Percentage (%)

Market share (electricity) (1)	31 December 2016	31 December 2015
Ordinary mainland generation	35.1	38.8
Renewable generation (2)	3.5	N/A
Distribution	43.7	43.5
Supply	35.3	35.7

(1) Source: In-house.
(2) Does not include hydro.

GWh

Gas Sales	2016	2015	% chg
Deregulated market	48,270	47,034	2.6
Regulated market	1,464	1,039	40.9
International market	19,474	14,926	30.5
Wholesale business	8,921	8,588	3.9
TOTAL (1)	**78,129**	**71,587**	**9.1**

(1) Excluding own generation consumption

Thousands

Number of customers (gas) (1)	2016	2015	% chg
Regulated market	262	288	(9.0)
Mainland Spain	233	259	(10.0)
Non-Mainland Territories	29	29	-
Deregulated market	1,276	1,173	8.8
Mainland Spain	1,167	1,082	7.9
Non-Mainland Territories	86	86	-
Outside Spain	23	5	360.0
TOTAL	**1,538**	**1,461**	**5.3**

(1) Supply points.

Percentage (%)

Trends in demand for gas (1)	2016	2015
Spain	2.1	4.4

(1) Source: Enagás, S.A.

Percentage (%)

Market share (gas) (1)	31 December 2016	31 December 2015
Deregulated market	16.9	16.5
TOTAL	**16.9**	**16.5**

(1) Source: In-house.

GWh

Energy distributed	2016	2015	% chg
Business in Spain and Portugal	115,602	114,190	1.2
TOTAL	**115,602**	**114,190**	**1.2**

(1) At power plant busbars

Km

Distribution and transmission networks	31 December 2016	31 December 2015	% chg
Business in Spain and Portugal	316,562	317,675	(0.4)

Percentage (%)

Energy losses	2016	2015
Business in Spain and Portugal	11.0	11.3

Minutes

System Average Interruption Duration Index (SAIDI)		2016	2015
Business in Spain and Portugal (average)	(1) (2)	45	49

(1) Corresponds to Spain.
(2) In accordance with the calculation procedure set out in Royal Decree 1995/2000, of 1 December 2000.

Financial Data

Euros

Key figures		2016	2015	% chg
Net earnings per share	(1)	1.33	1.03	29.9
Cash flow per share	(2)	2.83	2.51	12.8
Book value per share	(3)	8.46	8.53	(0.9)

(1) Net profit per share = profit for the year of the parent / Nº shares.
(2) Cash flow per share = Net cash flows from operating activities / Nº of shares.
(3) Carrying amount per share = Equity of parent / Nº of shares.

Profitability indicators (%)		2016	2015
Return on equity	(1)	15.69	12.33
Return on assets	(2)	4.69	3.62
Economic profitability	(3)	9.20	7.62
Return on capital employed (ROCE)	(4)	5,92	5,12

(1) Return on equity = profit for the year of the parent / average equity of the parent
(2) Return on assets = profit for the year of the parent / average total assets.
(3) Economic profitability = operating profit / average property, plant and equipment.
(4) Return on capital employed (ROCE) = operating profit after tax / (average non-current assets + average current assets).

Million Euros

		Leverage ratio	
		31 December 2016	31 December 2015
Net financial debt:		**4,938**	**4,323**
Non-current financial debt		4,223	4,680
Current financial debt		1,144	-
Cash and cash equivalents		(418)	(346)
Derivatives recognised as financial assets		(11)	(11)
Equity:		**9,088**	**9,039**
Of the parent		8,952	9,036
Of non-controlling interests		136	3
Leverage ratio (%)	(*)	**54.3**	**47.8**

(*) Leverage = Net financial debt /equity.

Financial indicators		2016	2015
Liquidity ratio	(1)	0.72	0.85
Solvency ratio	(2)	0.92	0.96
Debt ratio	(3)	35.21	32.35
Debt coverage ratio	(4)	1.44	1.42

(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).

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 2016.

There follows an update of the Spanish regulatory framework - regulations that either were approved in 2016 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, the Royal Decree eliminates the yearly update of unitary values based on the CPI, in accordance with Law 2/2015, of 30 March 2015, on de-indexing the economy.

On 12 December 2015, Ministerial Order IET/2660/2015, of 11 December 2015, was published, establishing the types of installations and unitary value to be used in calculating distribution remuneration. This Order 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 Euros 2,014 million in remuneration for this activity. ENDESA has also been awarded quality and anti-fraud incentives of Euros 7 million and Euros 2 million, respectively.

Social Bonus

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 marketing 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. For 2016, this percentage was established at 41.10% for Endesa through Ministerial order IET/1451/2016, of 8 September 2016.

Despite the foregoing, in a ruling on 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 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 through a ruling of 14 December 2016, and, on 2 February 2017, an appeal was submitted against this to the Constitutional Court (see Note 16.3 to the Consolidated Financial Statements for the year ended 31 December 2016).

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.

By virtue of this Royal Decree Law, the Social Bonus will cover the difference between the Small Consumer Voluntary Price (SCVP or "PVPC" in Spanish) and a base value, which may vary depending on the categories of vulnerable consumers established, to be known as the last-resort tariff, which will be applied by the supplier of reference concerned on the bills of consumers on the scheme.

The Social Bonus will be funded by group parents with supply activities, or by companies acting directly. The CNMC will calculate the funding percentage annually, and it will be proportional to the number of customers. The Royal Decree Law establishes transitory funding percentages, and 37.67% was established for ENDESA.

Also, with the upper limit established by an order issued by the Ministry of Energy, Tourism and Digital Agenda, following an Agreement by the Government's Delegated Committee for Economic Affairs, these companies or groups of companies would undertake the amount they have to pay to co-fund along with public authorities the cost of supply to consumers deemed to be severely vulnerable in accordance with the criteria established in regulations. This will make them essential supplies, and supplies cannot be suspended for consumers deemed to be severely vulnerable using last-resort tariffs who, for the purposes of these supplies, are covered by social services since their income makes them vulnerable to social exclusion, and the measure is confined to individuals in their habitual residence. The above will be accredited in a document issued by social services.

Regulations will also establish the categories of vulnerable consumers in respect of whom, 4 months after the first payment request (as opposed to 2 months at present), to no avail, the supply may be curtailed.

The Royal Decree Law contemplates that in the maximum term of 3 months from its validation, which took place on 31 January 2017, its development will be approved by Royal Decree.

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.

2016 electricity tariff

On 18 December 2015, Ministerial Order IET/2735/2015, of 17 December 2015, establishing access charges for 2016 was published in the Official State Gazette.

Pursuant to this Order, tariffs remained unchanged, except for high-voltage access tariff 6.1B (30<kV≤36). However, the unit prices paid by customers to finance capacity payments were reduced by 21.5% from those existing on 31 December 2015.

2017 electricity tariff

Ministerial Order ETU/1976/2016 of 23 December was published in the Official State Gazette on 29 December 2016, establishing access charges for 2017.

Access tariffs remained unchanged in the Order.

Natural gas tariff for 2016

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

Natural gas tariff for 2017

Ministerial Order ETU/1977/2016 of 23 December generally maintained the access tariffs with respect to 2016, having updated the Last Resort Tariffs with an average 9% reduction, resulting from lower raw material costs.

Energy efficiency

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

Ministerial Order IET/359/2016 of 17 March establishes ENDESA's contribution to the Energy Efficiency National Fund at Euros 29.9 million for 2016.

The Ministry of Energy, Tourism and Digital Agenda began to process a proposed Ministerial Order establishing the contribution obligations to the National Energy Efficiency Fund in 2017, increasing the amount proposed by the 2017 fiscal year for ENDESA to Euros 28.9 million.

4. Liquidity and Capital Resources

4.1. Financial Management

As part of an efficient cost management and optimisation policy, the finance function in Spain is centralised in ENDESA. At the date on which this Consolidated Management Report was drawn up, the Company had the necessary liquidity and access to medium/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. It also obtains funds from public authorities that offer attractive terms for very long-term loans. The Company also has short-term financing that helps optimise the management of its working capital requirements and improve the cost of its debt. This financing is obtained through bank credit facilities with leading financial institutions or through the issue of Euro Commercial Paper (ECP).

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

The incorporation of ENEL Green Power España, S.L.U. (EGPE) in ENDESA did not entail any changes to the company's financial management criteria (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).

Financial position.

In 2016, European sovereign debt interest rates were still subject to action taken by the European Central Bank, which allowed minimum rates for 10-year Spanish government debt to fall below 1%. 10-year Spanish bond spreads against the German Bund stood at 118 basis points at the end of 2016, similar to the end of 2015, while other Eurozone economies shouldering debt increased their country risk. Italian and Portuguese 10-year bond spreads against the German Bund rose in 2016 to 161 and 356 basis points respectively at year-end, underperforming by 64 basis points and 167 basis points respectively compared to 2015.

The ECB kept interest rates in 2016 at the historic low of 0% and extended its expansionary monetary policies and supervisory measures for the banking system. The ECB continued with its asset purchase programme and broadened the financial assets it can include.

In 2016, euro long-term interest rates (10-year swap) fell from 1.00% at the beginning of the year to 0.66% by year-end. The short-term interest rate (3-month Euribor) dropped from -0.13% to -0.32%. The long-term interest rate on the US dollar rose in 2016 from 2.19% to 2.34%. Meanwhile, the 3-month interest rate for the US dollar increased from 0.61% to 1.00% at the end of 2016.

The euro depreciated by 3.2% in 2016 compared to the US dollar (USD), causing the EUR/USD exchange rate to drop from 1.09 at the beginning of 2016 to 1.05 at year-end, affected by the divergence in monetary policy between the ECB and the US Federal Reserve (FED).

Financial debt

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

Million Euros

	Financial debt			
	31 December 2016	31 December 2015	Difference	% chg
Non-current Interest-Bearing Loans and Borrowings	4,223	4,680	(457)	(9.8)
Current Interest-Bearing Loans and Borrowings	1,144	-	1,144	-
Gross financial debt	**5,367**	**4,680**	**687**	**14.7**
Cash and Cash Equivalents	(418)	(346)	(72)	20.8
Derivatives recognised as financial assets	(11)	(11)	-	-
Net financial debt	**4,938**	**4,323**	**615**	**14.2**

At 31 December 2016 ENDESA's net financial debt stood at Euros 4,938 million, rising by Euros 615 million (+14.2%) with respect to 31 December 2015, mainly due to the outstanding balance of Euro Commercial Paper (ECP) issued during the period to pay for the acquisition of ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).

For the purposes of assessing net debt in 2016, it must also be borne in mind that on 4 January 2016 ENDESA paid shareholders an interim dividend against 2015 income of Euro 0.4 per share, entailing a disbursement of Euros 424 million, and on 1 July 2016 it paid an additional gross dividend against 2015 income of Euro 0.626 per share (Euros 663 million).

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

Million Euros

	Gross financial debt			
	31 December 2016	**31 December 2015**	**Difference**	**% chg**
Euro	5,367	4,680	687	14.7
TOTAL	**5,367**	**4,680**	**687**	**14.7**
Fixed rate	3,661	3,537	124	3.5
Floating rate	1,706	1,143	563	49.3
TOTAL	**5,367**	**4,680**	**687**	**14.7**
Average lifespan (years) (1)	6.5	8.0	-	-
Average cost (%) (2)	2.5	2.7	-	-

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

At 31 December 2016, 68% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 32% accrued interest at floating rates. At this date, 100% of the Company's gross financial debt was denominated in euros.

Information concerning the maturities of ENDESA's gross financial debt is set out in Note 17 to the Consolidated Financial Statements for the year ended 31 December 2016.

Main Financial Transactions

In 2016, ENDESA issued Euro Commercial Paper (ECP) through International ENDESA, B.V., and the outstanding balance at 31 December 2016 was Euros 932 million, renewed by irrevocable lines of bank credit.

The increase in the outstanding balance was the result of issues made to pay for the 60% stake in ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).

On 30 December 2016, ENDESA S.A. renewed the uncommitted intercompany credit facility with ENEL Finance International N.V. in the amount of Euros 1,500 million, maturing on 31 December 2017. The price to be applied to drawdowns is based on the cost of issuing ENEL's commercial paper plus 6 basis points or, if this basis cannot be used, ENEL's 1-year profitability curve adjusted with a formula defined up to the specific timeline for the drawdown required. At 31 December 2016 the uncommitted intercompany credit facility had not been drawn on.

As part of the financial operation (ENDESA Network Modernisation) arranged with the European Investment Bank (EIB) in 2014, Tranche B was formalised on 14 July 2016 in the amount of Euros 150 million, and Tranche C on 14 December 2016 in the amount of Euros 150 million, completing the full operation in a total amount of Euros 600 million. The drawdowns on these tranches have been made in 2017.

Liquidity

At 31 December 2016 the breakdown of ENDESA's liquidity was as follows:

Million Euros

	Liquidity			
	31 December 2016	31 December 2015	Difference	% chg
Cash and cash equivalents	418	346	72	20.8
Unconditional available on credit facilities (1)	3,202	3,187	15	0.5
TOTAL	**3,620**	**3,533**	**87**	**2.5**
Coverage of debt maturities (months) (2)	17	29	-	-

(1) At 31 December 2016 and 2015, Euros 1,000 million were accounted for by the line of credit with ENEL Finance International, N.V.
(2) Coverage of maturities = maturity period (months) for vegetative debt that could be covered with the liquidity available.

"Cash and cash equivalents" are highly liquid and there is no risk of a change in their value, they mature within 3 months from their contract date and earn interest at market rates for this type of deposit. Information on ENDESA's cash and cash equivalents is set out in Note 13 to the Consolidated Financial Statements for the year ended 31 December 2016.

Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 13 and 14.1.12 to the Consolidated Financial Statements for the year ended 31 December 2016.

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 2016 and 2015 are as follows:

Million Euros

	Leverage ratio	
	31 December 2016	31 December 2015
Net financial debt:	**4,938**	**4,323**
Non-current financial debt	4,223	4,680
Current financial debt	1,144	-
Cash and cash equivalents	(418)	(346)
Derivatives recognised as financial assets	(11)	(11)
Equity:	**9,088**	**9,039**
Of the parent	8,952	9,036
Of non-controlling interests	136	3
Leverage ratio (%) (*)	**54.3**	**47.8**

(*) 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 14.1.11 to the Consolidated Financial Statements for the year ended 31 December 2016.

Information on investments and shareholder remuneration is provided in Section 6.3. Main Financial Indicators and Section 13.2 Dividend Policy in this Consolidated Management Report.

4.3. Credit Rating Management.

Political uncertainty has been the keynote throughout most of the year, and Spain's rating hardly changed in 2016. Only Moody's downgraded its outlook from Positive to Stable, and maintained the Baa2 rating. This occurred in February, on the basis of disbelief that the acting Government at that time would continue its reforms.

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

In the case of ENDESA, credit rating agencies maintained their ratings in 2016. Only Standard & Poor's downgraded the outlook from Positive to Stable, and maintained the BBB rating. This downward review on 26 February 2016 was mainly justified in terms of the agency's downward review of estimated electricity prices.

Developments in ENDESA's credit ratings in 2016 were as follows:

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

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

At year-end 2016, ENDESA's credit rating was "investment grade" according to all rating agencies. It should be noted that ENDESA's credit rating is always limited by that of its Parent, ENEL, in accordance with the methods used by the rating agencies.

ENDESA 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 2016, cash and cash equivalents stood at Euros 418 million (Euros 346 million at 31 December 2015).

At 31 December 2016 and 2015, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Million Euros

	Cash flows			
	31 December 2016	**31 December 2015**	**Difference**	**%Var**
Net cash flows from operating activities	2,995	2,656	339	12.8
Net Cash Flows used in Investing Activities	(2,317)	(773)	(1,544)	199.7
Net Cash Flows used in Financing Activities	(606)	(2,185)	1,579	(72.3)

In 2016, net cash flows from operating activities (Euros 2,995 million) helped cater for the net investment to conduct ENDESA's businesses (Euros 2,317 million), and the net cash flows from financing activities (Euros 606 million). Cash and cash equivalents rose by Euros 72 million during the period.

Net cash flows from operating activities

In 2016 net cash flows from operating activities totalled Euros 2,995 million, as against Euros 2,656 million generated in 2015, an increase of Euros 339 million (+12.8%) due to an increase in profits, net of adjustments, of Euros 207 million and of working capital (Euros 179 million) and a decrease in other payments for operating activities (Euros 311 million), among which lower expenditure on corporation tax (Euros 257 million).

At 31 December 2016 and 2015 working capital broke down as follows:

Million Euros

	31 December 2016	31 December 2015
Current assets (1)	**5,015**	**4,633**
Inventories (2)	1,202	1,262
Trade and other receivables	3,452	2,977
Current financial assets	361	353
Non-current assets held for sale	-	41
Current liabilities (3)	**6,377**	**5,871**
Current Provisions	567	638
Trade and other Payables	5,810	5,233

(1) Excludes cash and cash equivalents and derivatives recognised as financial assets corresponding to debt.
(2) Among other items, this includes movements by redemption of carbon dioxide (CO_2), emission rights, which did not entail any cash outflows.
(3) Excludes current financial debt and derivatives recognised as financial liabilities corresponding to debt.

Net cash used in investing activities

In 2016 net cash flows applied to investing activities totalled Euros 2,317 million and included the following, among other aspects:

- Acquisition of a 60% stake in ENEL Green Power España, S.L.U. (EGPE) for the gross amount of Euros 1,207 million, plus the costs incurred by the transaction (Euros 2 million) and the cash and cash equivalents it contributed (Euros 31 million) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) in this Consolidated Management Report).
- Acquisition of a 4.86% stake in Tejo Energia – Produção e Distribução de Energia Eléctrica, S.A. for a net amount of Euros 7 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- Acquisition of 100% of the shares of Eléctrica del Ebro, S.A., with a net cash outflow of Euros 18 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- The sale of a 50% holding in ENEL Insurance N.V. for Euros 114 million (see Section 2.4. Consolidation Scope in this Consolidated Management Report).
- Net payments for investment in property, plant and equipment and intangible assets in the amount of Euros 1,144 million (Euros 746 million in 2015) (see Section 4.5. Investments of this Consolidated Management Report).

Net cash used in financing activities

In 2016 net cash flows applied to financing activities totalled Euros 606 million (Euros 2,185 million in 2015) and were mostly accounted for by the payment of Euros 1,089 million in dividends (Euros 805 million in 2015) (see Section 13.2 Dividend Policy in this Consolidated Management Report).

4.5. Investments

In 2016 gross investment by ENDESA totalled Euros 1,221 million (Euros 1,084 million in 2015), of which Euros 985 million related to capex, Euros 143 million to investments in intangible assets, and Euros 93 million to financial investments, as follows:

Million Euros

	Gross investments (1)		
	2016 (2)	2015	% chg
Generation and Supply	388	328	18.3
Distribution	595	585	1.7
Other	2	2	-
TOTAL CAPEX	**985**	**915**	**7.7**
Generation and Supply	57	47	21.3
Distribution	55	37	48.6
Other	31	26	19.2
TOTAL INTANGIBLE ASSETS	**143**	**110**	**30.0**
FINANCIAL	**93**	**59**	**57.6**
TOTAL INVESTMENTS	**1,221**	**1,084**	**12.6**

(1) 2016 does not include investment in ENEL Green Power España, S.L.U. (EGPE) or in Eléctrica del Ebro, S.A. (see Section 2.1 Acquisition of ENEL Green Power España, S.L.U. (EGPE) and Section 2.4. Consolidation Scope in this Consolidated Management Report).
(2) Includes investment by ENEL Green Power España, S.L.U. (EGPE) since the takeover date on 27 July 2016, in the amount of Euros 14 million.

Gross investment in generation in 2016 largely related to plants that were already operating at 31 December 2015, including investments in the Litoral power plant (Euros 83 million), in order to adapt to European environmental law, which extended its useful life. It also includes investment in upgrading major components of renewable technology assets.

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

Gross investment 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. These also included investment for the widespread installation of remote management smart meters and their operating systems.

Gross investment in intangibles mainly related to software applications.

Financial investments mainly related to guarantees provided for operation in the electricity market (Euros 40 million) and contributions of funds to Nuclenor, S.A. (Euro 25 million).

4.6. Contractual Obligations and Off-Balance Sheet Operations

On 29 December 2016, through its wholly-owned investee ENDESA Servicios, S.L.U., ENDESA, S.A. and ENEL Iberoamérica, S.L.U. drew up a Contract for the Assignation of Systems and Telecommunications Business, whereby ENDESA, S.A. would purchase systems and telecommunications business within its sphere of activity from ENEL Iberoamérica, S.L.U. The effective date of the transaction was 1 January 2017. The operation entailed reorganisation of systems and telecommunications support activities to make them more flexible in order to adapt to ENDESA's corporate scope, simplifying procedures and administrative management. The stipulated purchase price was Euros 246 million, paid up on signature of the contract.

Information concerning future purchase commitments is provided in Notes 6, 8 and 11.2 to the Consolidated Financial Statements for the year ended 31 December 2016, broken down as follows:

Million Euros

	Future electricity purchase commitments	
	31 December 2016	31 December 2015
Property, Plant and Equipment	338	606
Intangible assets	2	2
Other intangible assets		
Financial assets	-	-
Purchases of fuel stocks and others	20,652	26,478
Purchases of fuel stocks	20,596	26,411
Electricity purchases	-	-
Purchases of carbon dioxide (CO_2) emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs)	56	67
TOTAL	**20,992**	**27,086**

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

5. Events after the Reporting Period

Information concerning events after the reporting period is provided in Note 38 to the Consolidated Financial Statements for the year ended 31 December 2016.

6. Outlook

6.1. Energy paradigm

ENDESA favours a new energy paradigm with an efficient, sustainable economic and industrial model based on a decarbonised economy by the year 2050. To this end, the levers and key courses of action to be rolled out to meet decarbonisation targets will focus on the following aspects:

- **Electrification of demand**: in order to meet the target of a decarbonised economy, fossil fuel greenhouse gas emissions will have to be totally displaced by 2050. The only alternative for this scenario is en masse electrification of final energy demand through courses of action to encourage internalisation of the cost of carbon dioxide (CO_2) emission rights in all emission sectors, electrical mobility plans and recharging infrastructures, assisted by a proactive role by distribution operators, and rationalisation of the electricity tariff to bring about an energy model with efficient allocation of costs.

- **Emission-free production of electricity**: developments in the production of electricity towards an efficient mix of emission-free generation, helped along, among other aspects, by a national renewables plan in accordance with growing demand. In this regard conventional nuclear generation and efficient thermal generation are considered key factors to produce a smooth successful transition in terms of prices and supply security, with no new investment in production involving fossil fuels and a gradual shutdown of the current system.

- **Improvement of energy efficiency**: through an efficiency and electrification plan to introduce incentives to adopt energy efficiency measures in association with electrification.

- **Deployment of smart electricity grids**: through automation and digitalisation of the grid as a key factor to optimise investment in electricity and operation of the system, which will require a deployment plan with a remuneration plan attached.

6.2. Strategic pillars

In due consideration of the tendencies described, ENDESA's industrial plan is fully aligned with the new challenges and with the new energy paradigm, which will drive forward sustainable growth. It will therefore be based on the following strategic pillars:

a) Decarbonisation of ENDESA's electricity production mix by 2050.

b) Boosting the position with regard to smart electricity grids to cater for the expected growth.

c) Focus on excellent customer service.

d) Continuous commitment to improving the efficiency of all lines of business.

Also, on a transversal plane to the courses of action stipulated, ENDESA will use digitalisation as the main driver of transformation to meet the Strategic Plan's targets.

a) Decarbonisation of ENDESA's electricity production mix by 2050.

ENDESA has an ambitious plan to gradually reduce emissions to meet the final zero-emissions target by the year 2050. In this context, it is also considering major renewable energy targets using ENEL Green Power España, S.L.U. (EGPE) as an efficient sustainable renewable energy platform.

The courses of action planned to develop a renewable energy platform include investment to extend the lifespan of wind power facilities, capturing synergies by optimising the portfolio of ENEL Green Power España, S.L.U. (EGPE) and homing in on further growth opportunities.

Specifically, ENDESA plans to add approximately 300 MW within the next 3 years on top of the 1,705 GW added in 2016 following the purchase of 60% of ENEL Green Power España, S.L.U. (EGPE) (see Section 2.1. Acquisition of ENEL Green Power España, S.L.U. (EGPE) of the Consolidated Management Report), and, in the longer term, ENDESA will also invest in the organic growth of these technologies.

With regard to the conventional generation portfolio, this is deemed to be a key factor in guaranteeing a secure supply during the period of transition towards decarbonisation of the electricity production mix, and the following objectives and key courses of action are being considered:

– **Nuclear technology**: guaranteeing the long-term operation of nuclear plants safely and efficiently in terms of costs, by continuous measures to improve the plants.

– **Coal-fired electricity plants**: adaptation to best environmental practices through investment in relation to IED (Industrial Emissions Directive) and BREF (Best available techniques –BAT-) at imported coal plants. No investment is planned under current market conditions for Spanish coal plants.

– **Non-mainland territories production facilities**: maintaining a secure supply in due adherence to environmental regulations.

b) Boosting the position with regard to smart electricity grids to cater for the expected growth.

The future extension of the electricity network will be driven by electrification of demand and the incorporation of renewable energies.

ENDESA has identified the following initiatives to the prepare electricity network for the future:

– **Digitalisation projects** mainly focusing on smart meters, which will be fully implemented before the regulatory deadline of year-end 2018, automation of the network by fitting remote-control devices to reduce downtime, carry out technology modernisation projects and improve communications ("Simon" project).

– **Extension of the electricity network** with an investment plan focusing on development and improvement of the structure.

– **Modernisation and improvement of the electricity network** through investment in substitutions.

ENDESA also intends to continue working on initiatives to boost efficiency, loss reduction plans and anti-fraud measures, in order to secure maximum value for the current remuneration model.

Finally, ENDESA intends to carry out innovation projects in the electricity network to develop a wide range of new services (Growsmarter project, project Flexiciency, project ZeEUS, project Monica, project La Graciosa, among others) (see Section 8. Research, Development and Innovation Activities (R&D+i) in this Consolidated Management Report).

c) Focus on excellent customer service.

ENDESA will focus on sustainable leadership and growth of the retail market:

– **Electricity**: consolidation of its position on the Spanish market, development of sophisticated flexible products, and growth in Portugal in the Business-to-Consumer (B2C) and Business-to-Business (B2B) segments.

– **Gas**: consolidation of its current position on the Spanish market with new sales channels and products, growth in Portugal (Business-to-Consumer (B2C) and Business-to-Business (B2B)) and also in France (Business-to-Business).

The following plans have been made to this end:

- Making use of robust management of the integrated margin of production and supply business in the deregulated market.
- Maximizing the value of customer portfolios on the basis of experience, and contemplating the definition of a full range of action plans to segment the customer base and secure loyalty.
- Boost development of digital channels as the driver of service quality and new ways of working alongside customers.
- Growth of value-added products and services in the global supply business, on the strength of the experience attained.
- Innovation and development of new products as a growth level, mainly focused on electrical mobility, distributed generation and smart homes.

d) Continuous commitment to improving the efficiency of all lines of business.

ENDESA is heavily committed to a constant search for efficiency, and deploys efficiency plans in all its lines of business, seeking to reduce costs:

- In terms of Generation, unit costs will be brought down by deploying exchange practices and continuous improvement of all technologies, renegotiating operation and maintenance contracts, optimising management of fuels and introducing efficiency measures by applying digital plans to the assets base. In the specific case of renewable energies, plans have been made to secure cost synergies through the integration of control centres, unification of bidding processes and dispatch systems, among other measures.
- As regards Distribution, optimising staff, equipment and convergence systems and investing in technology and digitalisation to boost efficiency will help bring down costs.
- In terms of Supply, a review of the main processes and digitalisation initiatives will improve costs.

In this regard, ENDESA's digitalisation plan will act as the main driver of efficiency plans in the company's Business Lines:

- In Generation, through digital transformation of industrial assets for the purposes of maintenance, security and operation.
- In Distribution, through comprehensive application of smart meters, automation of the grid, deployment of remote-control devices and technology innovation.
- In terms of Supply, using digital platforms to interact with customers and the benefits of digitalisation to boost efficiency, service quality and development of new channels and services.

Finally, all the objectives set out in ENDESA's Strategic Plan are fully in line with the new energy paradigm and the sustainable development commitments in its Sustainability Plan (see Section 8. Sustainability Plan in this Consolidated Management Report):

- Decarbonisation of the energy mix by the year 2050, with a plan to reduce emissions and strengthen the position of renewable energies.
- Fostering digitalisation of both the grid and customers by means of solutions geared towards automation, supply quality, electrification and energy efficiency for demand.
- Cooperation with public authorities in terms of providing access to electricity for vulnerable customers.
- Commitment to education and social and economic development, mainly through the role played by the ENDESA Foundation.

6.3. Main financial indicators

The industrial plan approved by the Board of ENDESA, S.A. on 7 November 2016 contemplates an investment target, net of subsidies and assets assigned by customers, in the amount of Euros 4.7 billion between 2016 and 2019, broken down into maintenance investment (56%) and investment in growth (44%).

The breakdown of the investment plan by lines of business is as follows:

- Generation (53%) with mainland investment (30%), non-mainland investment (12%) and renewables (11%). Most of this focuses on recurring maintenance investment and selective environmental investment in imported coal-fired plants to comply with EU emissions legislation. Non-mainland investment contemplates maintenance, environmental protection and selective capacity substitutions. Investment in renewables will concentrate on developing new capacities.

- Distribution investment (38%) will focus on maintenance and growth investment to deploy smart meters, and development of the Quality Plan to expand grid automation.

- Supply (9%), with investment to develop the projects described.

ENDESA will also take stock of selective opportunities for inorganic investment in renewable energies, small European distribution companies and distribution concessions in Portugal, in addition to potential acquisitions of customer gas and electricity portfolios, and value-added products and services.

On the basis of the strategic pillars described above, in due consideration of estimates of economic indicators, market and regulatory trends in the years ahead, ENDESA has drawn up a business plan including, among other parameters, forecasts of economic indicators for the Group's consolidated results. ENDESA expects its gross operating profit (EBITDA)[1] to increase from Euros 3.4 billion in 2016 to Euros 3.7 billion by 2019.

Notwithstanding the foregoing, prospective information cannot be considered a guarantee of the Company's future performance in that plans and forecasts are subject to risks and uncertainties, which could result in ENDESA's future performance not matching the initial forecasts (see Section 7. Main risks and uncertainties in connection with ENDESA's business in this Consolidated Management Report).

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

7.1. Risk control and management policy

The Risk Management and Control Policy involves guiding and directing strategic, organisational and operating activities to enable the Board of Directors identify precisely the acceptable risk level, with a view to the managers of the various Business Lines maximising Company's profit, maintain or increase its assets and equity and the certainty of this occurring above certain levels and prevent future events from undermining the Company's profit targets.

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

The body responsible for implementing the Risk Management and Control Policy is the ENDESA S.A. Risk Committee, which relies on the internal procedures of the various business and corporate areas and is supervised by the Audit and Compliance Committee of the Board of Directors of ENDESA, S.A. It consists of the parties responsible for each of the Company's Business Lines and Corporate Areas, and the following functions are assigned to it:

[1] Gross operating profit (EBITDA) = Income - Supplies and Services + Work carried out by the Group for its assets – Personnel Expenses – Other fixed operating expenses.

- Regularly provide the ENDESA, S.A. Board of Directors with an integrated view of current and foreseeable risk exposure.

- Ensure that senior management participates in strategic risk management and control decisions.

- Guarantee the coordination between the risk management units and those units responsible for their control, and compliance with the Risk Management and Control Policy and its associated internal procedures.

- Ensure the correct working of the Risk Control System and, in particular, that all major risks are identified, managed and adequately quantified.

- Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.

- Ensure that the risk control and management systems adequately mitigate risks within the Risk Management and Control Policy framework.

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

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

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

- **Identification**: the purpose of identifying risks is to maintain a prioritised and updated repository of all the risks assumed by the corporation through coordinated and efficient participation at all levels of the Company.

- **Measurement**: the purpose of measuring parameters is to allow risks to be aggregated and compared is to quantify overall exposure to risk, including all of ENDESA's positions.

- **Control**: the purpose of risk control is to guarantee that the risks assumed by ENDESA are appropriate to the objectives set, ultimately, by the ENDESA, S.A. Board of Directors.

- **Management**: the purpose of risk management is to implement actions aimed at adjusting risk levels at each level of ENDESA to the risk tolerance and predisposition established.

This process sets out to secure an overview of risk to assess and prioritise all risks. It covers the main financial and non-financial risks to which ENDESA is exposed, both endogenous (due to internal factors) and exogenous (due to external factors), set out on an annual map featuring the main risks, characterised and quantified, and establishing regular reviews.

Moreover, due to the increased interest in the control and management of the risk that companies are exposed to and given the complexity that identifying it from a comprehensive point of view is acquiring, the participation of employees is important at all levels of this process. A risk mailbox has now been created for employees to help identify market risks and come up with suggestions for measures to mitigate them, thereby completing the existing top-down risk management and control systems and mailboxes and specific procedures to send in communications in connection with breaches of ethical behaviour, criminal risks and employment risks.

To boost these initiatives, the ENDESA, S.A. Board of Directors also improved a Tax Risk Management and Control Policy to guide and direct strategic, organisational and operating activities to enable the Board to identify precisely the acceptable tax risk level, to help tax managers meet the policy's fiscal objectives. The Tax Risk Management and Control Policy is the specific documentary manifestation of tax control in the Fiscal Strategy approved by the Board of Directors of ENDESA, S.A.

Information regarding ENDESA's risk management and the use of derivative financial instruments is provided in Notes 18.3 and 19 to the Consolidated Financial Statements for the year ended 31 December 2016.

The Annual Corporate Governance Report is attached to this Consolidated Management Report as Appendix I, and describes ENDESA's risk management and control systems.

7.2. Main risks and uncertainties.

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

7.2.1. Business and Sector-related Risks

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

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

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

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

Information regarding sectoral regulation may be found in Section 3. Regulatory Framework in this Consolidated Management Report, and also in Note 4 to the Consolidated Financial Statements for the year ended 31 December 2016.

In addition, the European Union has established an operating framework for the various Member States, which include, *inter alia*, objectives related to emissions, efficiency and renewable energies.

The introduction of new requirements, or amendments to existing ones, could adversely affect ENDESA's business activities, results, financial positions and cash flows if it cannot adapt and manage correctly the environment arising from them.

Information on likely trends in the new economic and industrial model and ENDESA's industrial plan may be found in Section 6.1 Energy Paradigm and Section 6.2 Strategic Pillars of this Consolidated Management Report.

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

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

- The laws or regulation will not be amended or interpreted in such a way as to increase the expenses necessary to comply with such laws or as to affect ENDESA's operations, facilities or plants;

- Public opposition will not lead to delays or changes in the projects that are proposed; and

- The authorities will grant the environmental permits required to develop new projects.

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

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

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

- An environmental liability insurance policy which covers, up to a maximum of euros 100 million, claims arising from contamination.

- A third-party liability insurance policy which covers claims relating to damage to third parties or their property up to a maximum of Euros 200 million and an additional Euros 800 million for hydroelectric plants.

- In relation to risks arising from operating nuclear power plants, the storage and handling of low-level radioactive materials and the eventual dismantling of its nuclear power plants, an insurance policy up to Euros 700 million to cover any liabilities related to nuclear power plants up to the liability limit established by Spanish legislation.

The nuclear power plants are also insured against damage to their installations (including stocks of fuel) and machinery breakdowns, with maximum coverage of USD 1,500 million (approximately euros 1,355 million) for each generator Group.

On 28 May 2011, the Spanish government published Law 12/2011, of 27 May, on civil liability for nuclear damages or damages produced by radioactive materials, which raises operator liability to euros 1.200 million and allows coverage of this liability to be ensured in several ways. The entry into force of this regulation is in turn subject to entry into force of the Protocol of 12 February 2004, amending the Convention on Civil Liability for Nuclear Damage (Paris Convention), and the Protocol of 12 February 2004, amending the Convention which complements the latter (Brussels Convention) which, at the date on which this Consolidated Management Report was drawn up, was pending ratification by some European Union member states.

However, it is possible ENDESA may face third-party damage claims. If ENDESA were to be held liable for damages generated by its facilities for amounts greater than its insurance policy cover or for damages which exceed the scope of the insurance policy's cover, its business activities, financial position or operating results could be adversely affected.

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

Information concerning ENDESA's environmental management systems may be found in Section 10. Environmental Protection in this Consolidated Management Report.

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

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

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

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

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

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

In this connection, fuel price fluctuations in international markets may affect the contribution margin. The prices of the offers of the various technologies are therefore established through the internationalisation, among others, of fuel CO_2 quoted prices. Therefore, in the event of fluctuation in fuel prices and carbon dioxide (CO_2), generation technologies will attempt to reflect such fluctuations in their wholesale market prices. At the same time, the order of economic merit of each generation technology when establishing the market price, will depend on its relative costs, which include those of fuel and CO_2 emission rights, among others.

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

The Company is also exposed to the prices of CO_2emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs). The price of carbon dioxide (CO_2) emission rights, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs) influences the cost of production at coal-fired and combined-cycle plants.

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

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

Information regarding fuel stock purchase commitments may be found in Section 4.6.Contractual Obligations and Off-Balance Sheet Operations in this Consolidated Management Report and also in Note 11.2 to the Consolidated Financial Statements for the year ended 31 December 2016.

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

ENDESA's current relations with its main suppliers in the sector are essential for the development and growth of its business, and will continue to be so in the future. Furthermore, certain of these relationships are and will continue to be managed by ENEL, S.p.A.

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

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

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

Note 19.6 to the Consolidated Financial Statements for the year ended 31 December 2016 provides information on the concentration of customers and suppliers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information concerning ENDESA's investment plan may be found in Section 6.3. Main Financial Indicators in this Consolidated Management Report.

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

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

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

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

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

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

In addition to any economic problems, which could arise at the international level, ENDESA faces a situation of uncertainty at political level, in Europe and internationally, which could adversely affect the Company's economic and financial position. Specifically, it is considered that the impact of “Brexit” on ENDESA is negligible.

ENDESA cannot guarantee that the international or Eurozone economic situation will not deteriorate, or that an event of a political nature will not have a significant impact on the markets, thus affecting its economic situation. All of these factors could adversely affect ENDESA's business activities, financial position, operating results and cash flows.

7.2.3. Risks associated with Operations carried out by ENDESA

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

In the course of ENDESA's business activities, direct or indirect losses could arise from inadequate internal processes, technological failures, human error or certain external events, such as accidents at facilities, workplace conflicts and natural disasters. These risks and dangers could cause explosions, floods or other circumstances which could cause the total loss of the energy generation and distribution facilities; damages to or the deterioration or destruction of ENDESA's facilities, or even environmental damages; delays in electricity generation and complete disruption of the activity; or could cause personal damages or deaths. The occurrence of any of these circumstances could adversely affect its business activities, results, financial position and cash flows.

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

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

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

Information on attracting and retaining talent, training, leadership and development of employees may be found in Section 11. Human Resources in this Consolidated Management Report.

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

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

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

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

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

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

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

- Sales systems: marketing processes, demand forecasts, profitability, sales, customer service, claim management, hiring and the basic revenue cycle (validation of meter reading, invoicing, collection management and debt processing).

- Technical distribution systems: processes for managing the grid, meter-reading management, handling of new supplies, network planning, field work management, management of meter-reading equipment with advanced remote management and energy management capabilities.

- Economic and financial systems: economic management, accounting, financial consolidation and balance sheet processes.

Moreover, ENDESA is in the midst of a process of digital transformation, which will raise its exposure to potential cyber attacks that might endanger the security of its systems and its customer databases, which in turn might impair the Company's performance and undermine its customers' trust.

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

7.2.4. Financial Risks associated with ENDESA's Business

Note 19 to the Consolidated Financial Statements for the year ended 31 December 2016 lists the risk management and control mechanisms.

ENDESA is exposed to interest rate risk.

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

Information on interest rate risk is provided in Note 19.1 of the Notes to the Consolidated Financial Statements for the year ended 31 December 2016.

ENDESA is exposed to foreign currency risk

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

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

Information on foreign currency risk is provided in Note 19.2 of the Notes to the Consolidated Financial Statements for the year ended 31 December 2016.

ENDESA is exposed to credit risk

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

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

Information on credit risk is provided in Note 19.5 of the Notes to the Consolidated Financial Statements for the year ended 31 December 2016.

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

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

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

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

Information concerning ENDESA's financial function may be found in Section 4.1. Financial Management in this Consolidated Management Report.

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

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

Information concerning ENDESA's rating may be found in Section 4.3. Credit Rating Management in this Consolidated Management Report.

7.2.5. Tax Risks

Technical tax risk

This is the possible risk that the tax authorities may demand more contributions from the taxpayer than expected in relation to tax returns or returns not presented, or in addition to the returns presented or unpaid tax, due to different interpretations of laws or regulations or new regulations that may be introduced retroactively, in connection with tax payable, late-interest penalties, fines or any other item entailing tax debt. This risk is associated both with compliance with current regulations and changes in their interpretation.

The information relating to the tax periods open for review is detailed in Note 3ñ of the notes to the Consolidated Financial Statements for the year ended 31 December 2016.

Any change to the tax legislation applicable or to its interpretation could affect ENDESA's tax obligations, entailing fines, extra costs or increases in its obligations which could adversely affect its business activities, outlook, operational results, financial position and cash flows.

Reputational risk arising from tax matters

This is the risk that the main audience's perception, assessment or opinion of the company may be seriously affected due to the company's own actions, events that are wrongly or unfairly attributed to it, or due to events of similar nature that affect the entire sector and are projected on the company.

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

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

Also, ENEL Green Power España, S.L.U. (EGPE), a wholly-owned ENDESA subsidiary, has been fully consolidated between 2010 and 2016 as part of the Group number 574/10 of which ENEL Green Power España, S.L.U. (EGPE) is the Parent.

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

As a result of this, ENDESA is jointly responsible for paying the tax charge of the other members of the consolidated tax Groups to which it belongs or has belonged for all tax periods still open for review. ENEL Green Power España, S.L.U. (EGPE) is also responsible for this with respect to the other members of the tax consolidation group of which it has formed part.

Even though ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), has the right to recourse against the other members of the corresponding consolidated tax group, it could be held jointly liable if any outstanding tax charge were to arise which had not been duly settled by another member of the consolidated tax groups of which ENDESA or, where applicable, ENEL Green Power España, S.L.U. (EGPE), forms or has formed part. Any material tax liability could adversely affect ENDESA's business activities, results, financial position and cash flows.

7.2.6. Other Risks.

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

At 31 December 2016 the ENEL Group, through ENEL Iberoamérica, S.L.U., held 70.101% of ENDESA's share capital and voting rights, enabling it to appoint the majority of ENDESA's Board members and, therefore, to control management of the business and its management policies.

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

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

Information on balances and transactions with related parties is provided in Note 34 to the Consolidated Financial Statements for the year ended 31 December 2016.

ENDESA is involved in court and arbitration proceedings

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

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

Information on litigation and arbitration is provided in Note 16.3 to the Consolidated Financial Statements for the year ended 31 December 2016.

ENDESA is exposed to image and reputation impairment risk

ENDESA is exposed to the opinion and perception projected to different interest groups. This perception could deteriorate as a result of events produced by the Company or third parties over which it has little or no control.

Should this occur, this could lead to economic detriment for the Company due, among other factors, to increased requirements on the part of regulators, higher borrowing costs or increased efforts to attract customers.

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

ENDESA is exposed to sustainability risks.

Sustainability issues are now much more relevant, and in the years ahead they could increasingly affect some of the risk factors faced by ENDESA. Among these emerging global tendencies, the following factors have been identified as those which could affect ENDESA most: loss of biodiversity, water availability restrictions, terrorism, waste and atmospheric pollution, protection of human rights, digitalisation, commodity shortages, demographic change, cybersecurity, inequality and climate change.

Information concerning ENDESA's commitment to sustainable development may be found in Section 8 Sustainability Policy in this Consolidated Management Report.

8. Sustainability policy.

8.1. ENDESA's sustainability commitment.

ENDESA believes that sustainability is responsible growth - in other words, making social and environmental opportunities part of its management model and strategy, helping it achieve its business objectives and maximising long-term value creation for the company and the local communities it serves.

This unswerving commitment to sustainability was boosted following approval of the Sustainability Policy on 21 December 2015 by the Board of Directors of ENDESA, S.A., which aims to determine and formalise the Company's commitment to sustainable development, laying this down in the mission, vision and values that make up ENDESA's principles of conduct.

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

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

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

– These commitments are fully integrated in day-to-day work and are constantly reviewed and improved through the definition of objectives, programmes and actions, which are included in successive sustainability plans.

– ENDESA has monitoring and evaluation mechanisms available that exhaustively measure the achievement of these commitments.

– The Company's focus is on steady and fluid dialogue with stakeholders, with the aim of incorporating their expectations in a structured manner and in alignment with its strategy.

– ENDESA is committed to the application of responsible communication practices as its principal vehicle of transmitting the strength and solidity of its commitment to sustainable development to its various stakeholder groups.

ENDESA's new commitments for the future are:

- **Customers**: commitment to digital quality, commercial excellence and efficient energy consumption.
- **Shareholders and investors**: commitment to creating value and profitability.
- **People**: commitment to personal and professional development, diversity and work-life balance, and the occupational health and safety of the people who work for ENDESA.
- **Conduct**: commitment to good governance, transparency and ethical behaviour.
- **Environment**: commitment to reducing the environmental footprint and protecting the environment.
- **Innovation**: commitment to innovation in technology and the scope of services.
- **Society**: commitment to the socio-economic development of the communities in which the company operates.
- **Institutions**: commitment to developing public-private partnerships to promote sustainable development.
- **Employees**: commitment of those who work with us to be actively involved in sustainability.

To this effect, the future commitments set out in the policy constitute the basis and guidelines for ENDESA's management of its business, and in this regard compliance is expressly supported by the Company's management, concerns employees, contractors and suppliers, and is evaluated by third parties. Through its Audit and Compliance Committee, the ENDESA, S.A. Board supervises proper implementation of the principles of the Sustainability Policy throughout the company's entire value-creation chain.

The policy is implemented by means of several Sustainability Plans at ENDESA.

8.2. Compliance with ENDESA's 2016-2019 Sustainability Plan

ENDESA's 2016-2019 Sustainability Plan, focused on encouraging sustainable short-term and long-term economic growth by fostering a sustainable responsible value-creation chain, established 2 priority areas for action to be taken: promotion of a more sustainable electricity production model and a focus on sustainable urban development.

Moreover, in a bid to guarantee the highest levels of excellence in terms of responsible business management, 5 transversal strategic pillars were identified for all the Company's activities: integrity, human capital, environment, supply chain and social commitment.

With more than 80 quantitative management targets, ENDESA has responded to each of the priorities and strategic pillars defined in its 2016-2019 Sustainability Plan, and has achieved overall compliance of more than 97%.

As part of its commitment to transparency and in a bid to gain the confidence of its stakeholders, ENDESA discloses compliance with its objectives and the courses of action in its 2016-2019 Sustainability Plan in its Sustainability Report, available for consultation at its website.

8.3. ENDESA's contribution to the United Nations Sustainable Development Goals (SDGs)

In September 2015 the General Assembly of the United Nations adopted the 2030 Agenda for Sustainable Development, consisting of 17 Sustainable Development Goals (SDGs) as an action plan for people, the planet and prosperity, and also in a bid to boost world peace, access to justice and to help fight climate change, and in this regard businesses were called upon to provide proactive assistance.

ENDESA is firmly committed to the new United Nations Agenda for Sustainable Development, and acknowledges the historic opportunity of the new Sustainable Development Goals (SDGs) and the implication of the private sector to meet the main challenges faced by society.

The ENEL Group has publicly undertaken to make a specific contribution to 4 of the 17 Sustainable Development Goals:

- SDG4 (Quality education): Assistance with the education of 400,000 people by the year 2020, in a range of educational projects.

- SDG7 (Affordable and clean energy): Fostering access to sustainable, affordable modern energy, assisting 3 million people by the year 2020.

- SDG8 (Decent work and economic growth): Fostering employment and sustainable, inclusive and sustained economic development for 1.5 million people by 2020.

- SDG13 (Climate action): Adopting initiatives to combat climate change, in a bid to attain carbon neutrality by the year 2050.

On 23 November 2016 ENDESA presented the new 2017-2019 Strategic Plan to investors (see Section 6 Outlook in this Consolidated Management Report), which sets the roadmap to encourage a more sustainable energy model and decarbonise the energy mix by 2050, thereby falling into line with the UN's new Sustainable Development Agenda.

In this regard ENDESA has announced its specific contribution to the Sustainable Development Goals (SDGs):

- SDG7 (Affordable and clean energy): No vulnerable customers without access to electricity, taking action in 3 areas: signature of cooperation agreements with public authorities, training and awareness campaigns on the responsible use of energy and submission of a regulatory proposal concerning the Social Bonus.

- SDG9 (Industry, innovation and infrastructure): Investing Euros 1 billion up to 2019 to promote digital transformation and develop energy solutions.

- SDG13 (Climate action): Decarbonisation of the energy mix by 2050, setting intermediate targets to reduce absolute emissions of carbon dioxide (CO_2) by 47% by 2020 and by 61% by 2030 with respect to 2005.

ENDESA will also assist with ENEL's commitments to SDG4 (Quality education) and SDG8 (Decent work and economic growth) through the social initiatives implemented by the Company and its Foundation.

However, although these Sustainable Development Goals (SDGs) are the priorities for ENEL and ENDESA, and therefore the emphasis will be placed on them in the years ahead, they will also take decisive action on the rest of the 17 Sustainable Development Goals (SDGs) through the Sustainability Plan.

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

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

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

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

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

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

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

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

Gross direct investment in Research, Development and Innovation (R+D+i) in 2016 amounted to Euros 16 million, distributed as follows:

Million Euros

	Gross direct investment in R+D+i	
	2016	**2015**
Generation and supply	12	19
Distribution	4	3
TOTAL	**16**	**22**
Gross direct investment in R+D+i / Gross operating profit (EBITDA) (%) (1)	0.47	0.72
Gross direct investment in R+D+i / Operating profit (EBIT) (%) (2)	0.81	1.38

(1) Gross operating profit (EBITDA) = Income - Supplies 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.

9.3 Main areas of activity

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

Electricity generation

Guidelines: reduce pollutants, boost digitalisation at plants, increase efficiency and improve flexibility of conventional plants in order to optimise operation and reduce their environmental impact.

Areas of activity:

- Digitalisation of generating plants:
  - “IOT Besos”: Demo project to implement new digital technologies at the Besos combined-cycle plant (applications for advanced control systems, wireless communications, energy harvesting, virtual and enhanced reality, artificial vision and advanced predictive diagnosis).
  - “Big Data”: Development of a platform and a predictive failure detection system based on big data technology and artificial intelligence for the main components of generating plants.
  - “Acombo”: Development of software for advanced calculations of the integrity of dams at hydro power plants. Project co-financed by Spain's "I+D Retos Colaboración" programme.
- Reduction of emissions and environmental protection:
  - “GTTech”: evaluation and validation of the injection of large amounts of water into gas turbines with liquid fuel to reduce nitrogen oxide (NOx) emissions in compliance with the future upper thresholds set by the Industrial Emissions Directive (IDE or “DEI” in Spanish).
  - “Ashreact”: a project aimed at recovering ash from the carbon combustion process at thermal power plants, through the use of an alkaline pre-activation process, to obtain substitutes for Portland cement products.
  - “Matching”: a project carried out alongside a number of other companies and R+D centres, co-financed by the EU's Horizon 2020 programme. The objective is to reduce water consumption in the energy sector through the use of new technology, and it involves validation of the various technologies at 3 pilot plants being installed at the As Pontes thermal power plant.

- "Lessox": Study of new operational strategies to reduce specific emissions of nitrogen oxide (NO_x) and sulphur oxide (SO_x) in variable-load coal-fired thermal units.

- "Innovaalga": Upgrading carbon dioxide (CO_2) from combustion gases at the Litoral (Almeria) thermal power plant, and the use of microalgae and recovery of the biomass generated to obtain high-value proteins and sustainable fertilisers.

- "O2GEN": Project aimed at optimising carbon dioxide (CO_2) capture using circulating fluidised bed oxy-combustion (OxyCFB) technology, through the use of higher ratios of oxygen and carbon dioxide (O_2/CO_2) in smaller boilers and with lower costs.

- "ReCaL" and "CaO_2": Optimisation of the process of capturing carbon dioxide (CO_2) using carbonation-calcination cycles with experimentation at the La Pereda 1.7 MWt pilot plant.

- "Orpao": Improvements to operation of desulphurisation plants by optimising the intermediate processes to reduce operating costs, improve the quality of gypsum and reduce liquid effluents, thereby improving quality and the environment.

– Increase the efficiency and flexibility of the power plants:

  - "Coalrel": Study of strategies to boost the flexibility of fuels at coal-fired thermal units, reducing specific emissions.

  - "Coal Stockpiling": Rollout of a project to avoid energy loss at coal facilities as a consequence of natural oxidation and spontaneous combustion processes, or coal particles being blown away by the wind.

  - "Conava": Implementation at the Teruel thermal plant of an adaptive expert predictive control system to optimise combustion, control superheat temperature and reduce thermal fatigue damage.

  - "Rubber": Development of a new inspection technique to test the integrity of rubber-metal joints in wet desulphurisation systems at coal-fired plants.

  - "Colifo": System to monitor the remaining life of the principal components of the boiler, with the aim of improving the operation of coal-fired thermal units.

  - "Protec": Development of new claddings to protect boiler pipes against corrosion at high temperatures and also against erosion.

– Energy storage:

  - "El Hierro": Assessment of the installation of an energy storage system to boost the quality of electricity supply on the El Hierro island grid.

Technology projects on advanced distribution grids.

Guidelines: to be the leader of communication technologies in the distribution network.

Areas of activity:

– Remote management project: The objective is to roll out an automatic remote electricity supply control and management system for domestic customers (less than 15 kW). This system, the first of its kind in Spain, will be installed in the homes of more than 12 million of the Company's customers (2010-2018), to replace conventional electricity meters, in compliance with prevailing Spanish legislation (Ministerial Order IET/290/2012, of 16 February), which will help boost efficiency and sustainability of the electricity network.

– Smart grid/Smart city projects: These ensure that the grids are able to offer a rapid response to users' needs.

- ENDESA is developing its "SmartGrid" concepts on its SmartCity programmes, which have produced a number of projects. It has now been eight years since the "SmartCity" project was introduced in Málaga, and six since deployment of the "SmartCity" setup in Barcelona.

- Monitoring and advanced control of medium/low voltage distribution networks (known as "Mónica"): The idea is to move forward from simple data capture to the management and use of information that helps decision-making and the use of smart electricity grids to optimise network performance. In 2016 ENDESA installed and started up a sensor multitude service at 56 medium/low voltage transformation centres in "SmartCity Málaga".

- "Dareed": A European project carrying out tests in Sevilla on the contribution of the general public to local energy management, whereby an energy market has been set up to put individuals and professionals in contact with one another.

- "Resilience to cope with Climate Change in Urban Areas": This focuses on assessing the impacts of climate change on functional continuity and guaranteed critical city services and analysis of their interdependences. Three EU cities are participating in the project (Barcelona, Lisbon and Bristol).

- "La Graciosa": This project aims to establish the strategies and systems necessary to optimise energy flows in order to maximise the penetration of renewable energies on La Graciosa island.

– "Smartnet": This project sets out to provide Information System solutions, market architectures and optimum interactions between transport operators, distributors and other participants, in the management of exchange of information and data to monitor and acquire ancillary systems within a pan-European context, for local needs and also to cover the requirements of the entire system, in due consideration of distributed generation and the flexibility it can provide.

Efficiency in end usage of energy

Guidelines: test the latest technologies in the field, define performance, identify areas of improvement and define operating processes.

Areas of activity:

– Active management of demand: The European EnergyTIC project enabling customers in subsidised housing to meet their water and energy savings targets.

– Large-scale energy storage ("Store" Project): Testing began in the Canary Islands of the first 3 plants with different energy storage technologies.

Electric vehicles.

Guidelines: ENDESA is still firmly committed to developing e-mobility technologies in the broadest sense, and plays an active role in this field in order to position itself as a leader in the e-mobility industry and to develop and test on a real scale recharge systems, which allow the energy stored to be used and are large scale examples aimed at promoting e-mobility in real environments.

Areas of activity:

– Rapid charging:

- "Prototype For Alternative Operation Of Mobility Assets": Integration of a new rapid charging system for electrically-powered buses and analysis of the impact of these infrastructures on the electricity distribution network.

- "Ultrafast": An ultra-rapid charger (400 kW) service available for all heavy electric vehicles in Barcelona; testing the technology and operating systems associated with the first fleet of 18-metre buses. The initiative forms part of the H2020 ZeUS "Zero Emission Urban System" Project, developed as part of a European consortium to demonstrate the economic, environmental and social viability of electric urban buses.

- "CIRVE": European project to deploy a network with 40 rapid-charge stations in urban and peri-urban areas, and to encourage this kind of infrastructure in Spain.
- "Ecar": A project in Majorca to install 6 rapid-charge stations with energy certified as 100% renewable.

– Inductive charge:

  - "Victoria": Development of a Spanish dynamic-induction charging technology for buses.

– Take advantage of energy stored in electric vehicles:

  - "Vehicle to Grid - V2G": Development of systems that allow vehicles to be charged and run down. In 2016 ENDESA worked alongside ENEL to demonstrate the validity of technology on international projects, creating the first commercial hub in Denmark and carrying out tests in Germany and the UK.

New products and services.

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

Areas of activity:

– "Flexiciency": Large-scale demonstration of new services for all agents in the European electricity market based on the access to almost-real-time data from meters. Operations were carried out in 2016 to inspect and select the best buildings and municipal sites to be included in the project. The technical specifications for the integration devices were also defined.

Network innovation projects

The main projects in this area were as follows:

- "Growsmarter": ENDESA was involved in this project as part of the European Union's Horizon 2020 Programme, and provided several solutions for the Barcelona demo, mainly in the areas of integration of infrastructure and sustainable urban mobility.
- "STEP": The objective is to test the ENEL "Smartinfos" devices connected to ENDESA's Smart Meters, which will display consumption data to real users via a web platform and a mobile phone application.
- Project for the Interoperability of Substation Automation Units, "IdEAS": The objective on this project is to develop and demonstrate a comprehensive fully interoperable network-integrated digital substation system.
- Standardisation-Security-Synchronisation Connected Substation project, "3S-CS": The project sets out to develop an integral system to control electricity substations on the basis of the "IdEAS" digital substation project, with wireless capacity.

Occupational safety.

Developing and testing technologies which contribute to the objective of reducing the accident rate:

– Implementation of the application "APP5RO" to verify compliance with the 5 golden rules for working with electricity.

- Analysis and monitoring of tasks in businesses operated by ENDESA, conducting assessments of possible improvements that could be made to processes.

– Inspection plan to analyse and monitor hazardous tasks in ENDESA's main lines of business. 189,876 inspections were carried out among the various lines of business in 2016.

- Extra Checking On Site “ECoS” programme, whereby an expert team trained by co-workers at different companies visit production centres to inspect specific tasks, drawing up comparisons and spreading the good practices observed to the rest of the organisation.

- SPP Programme (Safety Personalised Plan) for generation facilities, where major contractors are invited to visit the plant for bottom-up remarks on the Risk Prevention activities they all agree are the most important. The plan is monitored on a regular basis, and the information is stored in a corporate application.

9.4. Innovation Model

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

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

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

- **Identification of technological challenges**: in close collaboration with the businesses and after a trend analysis.

- **Generation of ideas**: in order to provide solutions to challenges. On two levels:

  - Internal ideas:

    (i) “Eidos Market”: a crowdsourcing platform to take advantage of the collective intelligence of all ENDESA's employees.

    (ii) "90 minutes of innovation": Internal employee innovation encounters, focusing on the collaborative economy, blockchain or the impact of artificial intelligence.

    (iii) “ENDESA Datathon”: to develop new proposals for the Spanish market through the analysis of the huge dataset provided to participants with simulated information on hourly usage.

    (iv) “Blockchain Lab”: Ideas laboratory to conduct a search for the best proposals and business models with blockchain technology in energy applications.

    (v) “TEAM A”: A project to identify innovative proposals in relation to digitalisation and new products.

  - External ideas: With channels open to:

    (i) Entrepreneurs:

      - Incense: ENDESA, together with ENEL and two other European partners, won a European competition to finance start-ups in the communication technologies industry focused on energy efficiency.

    (ii) Universities and research centres: ENDESA has an active relationship with the academic world through involvement and collaboration agreements with 14 universities and 10 research centres.

    (iii) Associations and working groups: it collaborates with various technology platforms and working groups promoted by various administrations.

    (iv) Suppliers: ENDESA works actively with its suppliers to incorporate and develop new technological solutions.

    (v) Other industries: ENDESA participates in innovation forums with other industries.

– **Launch of projects**: after they have been assessed by ENDESA's experts (according to a common methodology based on the initiative's value creation), if the evaluation is positive the ideas are converted into projects which then embark upon a structured management and monitoring process.

– **Capturing value**: Once the projects have been successfully completed, they move on to production in order to create value for ENDESA. Furthermore, ENDESA follows a prudent policy regarding the protection of intellectual property.

9.5. Patents and Licences

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

At 31 December 2016, ENDESA had 23 patents in Spain.

10. Environmental Protection

10.1. ENDESA's environmental policy

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

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

Environmental management focuses on the sustainable use of natural resources and energy, and sets out to preserve biodiversity and ecosystems in which it operates.

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

ENDESA has therefore been defining its environmental policy with the initial aim of creating a business culture based on environmental excellence, and intends to achieve this through its environmental management systems and plans.

10.2. Environmental investment and expenditure

ENDESA's gross environmental investment and expenditure in 2016 and 2015 were as follows:

Million Euros

	Annual gross environmental investment		
	2016	**2015**	**% chg**
Property, plant and equipment			
Generation and supply	93	75	24.0
Distribution	15	9	66.6
Structure and others	-	-	Na
TOTAL	**108**	**84**	**28.6**

Million Euros

	Annual cumulative gross environmental investment		
	2016	**2015**	**% chg**
Property, plant and equipment			
Generation and supply	1,198	1,130	6.0
Distribution	327	311	5.1
Structure and others	-	-	Na
TOTAL	**1,525**	**1,441**	**5.8**

Million Euros

	Annual environmental expense		
	2016	2015	% chg
Annual Expense			
Generation and supply	59	75	(21.3)
Distribution	17	17	-
Structure and others	4	7	(42.9)
TOTAL [(1)]	**80**	**99**	**(19.2)**

(1) Of total environmental expenditure, Euro 25 million in 2016 and Euro 41 million in 2015 went to the depreciation and amortisation of the investments.

10.3. ENDESA's Environmental Management Systems

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

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

Advanced environmental management.

In 2016 ENDESA made further progress in the development of its environmental management in 2016, both in terms of certification, integrated environmental permits and environmental impact studies; measures were also implemented to improve the collection process and quality of the information submitted by the different areas.

At 31 December 2016, 100% of the installed power capacity, harbour terminals and all distribution business were certified to the ISO 14001 standard. With regard to office buildings, the Company has been awarded Energy Efficiency System (ISO 50001) and Environmental Management System (ISO 14001) at 16 of its offices in Spain and 5 buildings hold certificates for Indoor Air Quality (UNE 171330-3).

The certified environmental management system is the foundation upon which all management systems are integrated, depending on the business and the type of facilities, in an effort to complete and take advantage of the synergies these systems provide with respect to comprehensive management and additional reference to the International Standardisation Organisation (ISO) and/or the "UNE" Spanish standards. In this connection, some mention should be made of the EMAS Eco-Management and Audit Scheme rules applied to thermal power plants, the quality systems for coal-fired plants, laboratories and certain plants, the energy efficiency management systems (ISO 50001) and the interior environmental quality certification (UNE 171330-3) for office buildings.

Integrated water management.

ENDESA has identified water as a critical resource that will be affected by climate change and the integrated management of water is one of its major concerns. The main tasks in this area entail improvements to consumption efficiency, water quality by controlling dumping and wastewater and reservoir management, with an assessment of ecological potential for birdlife, control of invasive species and preventing dry-up in regulated rivers.

ENDESA has procedures to control and reduce water dumping and to boost quality, mainly by means of wastewater treatment facilities, and conducts regular analyses to pinpoint instances of hydric stress at its facilities.

Managing environmental risks and liabilities.

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

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

Environmental footprint

Atmospheric emissions.

ENDESA closely monitors all of its emissions to verify their characteristics and the volumes emitted. The Company meets the parameters required by the regulations applicable, implements technology to minimise emissions, and applies corrective measures to the impacts generated.

Between 2008 and 2015, when the National Emissions Reduction Plan was carried out for major combustion facilities, the Company worked hard at its facilities to reduce atmospheric emissions of the main conventional pollutants (sulphur dioxide (SO_2), nitrogen oxide (NO_x) and particles). Up to 2015, this brought about a reduction of 87% in emissions of sulphur dioxide (SO_2), a 62% reduction in nitrogen oxide (NO_x) emissions and an 83% reduction in particles with respect to the base year 2006.

The transposition of EU Directive 2010/75/EU on industrial emissions into Spanish law through Law 5/2013 of 11 June, and Royal Decree 815/2013 of 18 October, introduces new and stricter environmental restrictions in the area of pollutant emissions. Specifically, the existing facilities must adhere to new limits and subscribe to a number of mechanisms as of 2016.

All mainland coal-fired plants are on the National Transitory Plan, which establishes maximum annual emission thresholds for a gradual reduction of emissions between 2016 and mid-2020. The progressive reduction of emissions at ENDESA's facilities on the scheme will be more than 50% in terms of sulphur dioxide (SO_2), nitrogen oxide (NO_x) and around 40% of particles between 2016 and 2020.

This mechanism, the National Transitory Plan, possibly entails more stringent requirements and a greater commitment to reduce the current emissions by ENDESA's major thermal power plants.

With regard to the new mechanisms established by regulations for industrial emissions, island facilities affected by Directive 2010/75/EU of 24 November 2010 form part of the "small isolated system" mechanism, through which the deadline for compliance with the emission limits has been extended to allow time to make the investments for compliance after 2020.

Waste.

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

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

Likewise, 98.7% of the water captured by ENDESA for use in its facilities is returned to the environment so that it can be reused.

Conservation of biodiversity.

At the end of 2016, the Biodiversity Conservation Plan had 26 courses of action underway, of which 19 were launched in previous years (5 of them ended in 2016, and 14 are still in progress) and 7 new courses of action were begun last year. A breakdown of locations shows that 56% of them were carried out in areas affected by

ENDESA's facilities and 23% were research projects that, in the majority of cases included the publication of articles and scientific papers.

These actions took place throughout Spain and Portugal, in both mainland (96%) and non-mainland (4%) territories, and included many of ENDESA's Business Lines. Specifically, generation accounted for 54% of the activities, distribution 27% and the remaining 19% were in the Corporate Area.

The Biodiversity Conservation Plan's objectives for 2016 remain on the same main action lines as in previous years:

– Adapting the physical environment of the Company’s land and facilities and encouraging biodiversity in a manner that is biogeographically compliant.

– Managing environmental factors at our facilities to help improve the habitat of certain species or their biotopes.

– Recognising ENDESA's natural heritage and the ecosystems this is home to, their value and state of conservation.

– Protecting native species in and around ENDESA's plants and controlling invasive species that have a high ecological impact and an impact on ENDESA's business.

11. Human Resources

11.1. ENDESA's workforce

At 31 December 2016, ENDESA had a total of 9,694 employees, 3.1% less than a year earlier. ENDESA’s average workforce in 2016 was 9,819 employees (-4.1%).

ENDESA's final and average headcounts in 2016 and 2015, by Business Lines, was as follows:

Number of Employees

	Final Headcount					
	31 December 2016			31 December 2015		
	Male	Female	Total (1)	Male	Female	Total
Generation and Supply	4,140	989	5,129	4,137	971	5,108
Distribution	2,707	467	3,174	3,019	483	3,502
Structure and others (2)	679	712	1,391	697	693	1,390
TOTAL EMPLOYEES	**7,526**	**2,168**	**9,694**	**7,853**	**2,147**	**10,000**

(1) At 31 December 2016 this included the final workforce of ENEL Green Power España, S.L.U. (EGPE) (188 employees) and Eléctrica del Ebro, S.A. (20 employees).
(2) Structure and services.

Number of Employees

	Average Headcount					
	2016			2015		
	Male	Female	Total (1)	Male	Female	Total
Generation and Supply	4,127	983	5,110	4,188	995	5,183
Distribution	2,841	474	3,315	3,105	490	3,595
Structure and others (2)	691	703	1,394	745	720	1,465
TOTAL	**7,659**	**2,160**	**9,819**	**8,038**	**2,205**	**10,243**

(1) In 2016 this included 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.
(2) Structure and services.

The breakdown by gender of the workforce at 31 December 2016 was 78% male, and the remaining 22% were female.

Information on ENDESA's workforce is provided in Note 37 to the Consolidated Financial Statements for the year ended 31 December 2016.

11.2. Occupational health and safety

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

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

ENDESA also carries out various annual initiatives in its long-term strategy of continuous improvement of Occupational Health and Safety. The initiatives carried out by ENDESA within the framework of this strategy in 2016 focused mainly on specific accident action plans, the maintenance and creation of new alliances with partner firms and action plans with outside contractors experiencing high accident rates.

In 2016 and 2015, the main Occupational Health and Safety indicators were as follows:

	Main figures	
	2016	2015
Combined frequency index (1)	1.01	1.28
Combined seriousness index (2)	0.08	0.08
Number of accidents (3)	50.27	65.0

(1) Combined frequency index = (Number of accidents / Number of hours worked) x 106.
(2) Combined seriousness index = (Number of days lost / Number of hours worked) x 103.
(3) Of which 4 in 2016, 9 in 2015 were serious and fatal accidents.

11.3. Responsible personnel management

ENDESA endeavours to create a healthy, well-balanced working environment, where respect and personal consideration take priority, an environment that offers professional development opportunities based on merit and ability.

To achieve this responsible management of personnel, ENDESA encompasses all its CSR initiatives for human resources in its Global Corporate Social Responsibility Plan for Human Resources, known as “Plan Senda”, and this was boosted in 2016 with initiatives in accordance with the Group's Diversity and Inclusion Policy.

In 2016 the company worked on each of the dimensions of the "Plan Senda", carrying out various initiatives:

- **Diversity and equal opportunities**: ENDESA maintains its commitment to the principles of gender equality and non-discrimination, and is working to become a company that respects and manages differences between people and ensures that all employees are treated equally and have the same opportunities. In 2016, it implemented the courses of action in the agreement on selection, promotion and life-work balance, among other issues, signed with the Spanish Ministry of Health, Social Services and Equality, which renewed its Equality Award.

- **Work-life balance and flexibility**: ENDESA also takes steps to consolidate its flexible working environment, which is designed to enable its employees to strike a balance between personal, family and professional life. ENDESA continues to strive to promote a culture of promotion and a proper work-life balance.

- **Integration of people with disabilities and people at risk of social exclusion**: ENDESA also developed its actions with regard to the integration of people with disabilities into the workforce, by direct or indirect contracting, via the purchase of goods and services, and by contracting services from specialist employment agencies.

- **Promotion of volunteer work**: ENDESA facilitates and encourages corporate volunteering among its employees. It is committed to the development of the communities in which it operates and contributes to their cultural, educational, environmental and social development.

11.4. Employment climate.

The Group's Employment Climate and Safety Survey was launched in September 2016 for all employees. The Survey comprised 42 multiple-choice questions and one open-ended question so that respondents could openly put forward proposed actions to improve the employment climate. The Employment Climate and Safety Survey closed on 7 October 2016. The response rate was high: 86% of employees took part, and 54% used their answers to the open-ended question to make suggestions.

The Employment Climate and Employment Safety Survey sought to ascertain the level of sustainable commitment, the safety index and other key data such as appraisals of supervisors, knowledge of strategy and safety policies.

The results of the Employment Climate and Safety Survey were similar to the outcome of the 2012 survey. Again, younger and newer employees tended to be more positive in their assessment. In 2016, the questionnaire engaged in a more in-depth exploration of safety management: safety was rated highly.

The final results were shared with Management across the board via a range of communication actions and access to the results platform. From then onwards, work was done on designing and implementing action plans at various levels, including top management.

The initiatives forming part of these plans aim to leverage strengths to address the areas of improvement identified. The key initiatives aim to continue to upgrade management skills in increasingly flexible and diverse settings.

11.5. Leadership and personal development

ENDESA constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. In this regard, ENDESA's values and codes of conduct, its Management Model and Objective Management Systems guarantee personal development on the basis of merit and contributions.

The leadership model is based on the Group's vision, mission, values and codes of conduct. The Open Power values are present in all employee management and development systems, and they are as follows: Responsibility, Innovation, Confidence and Proactivity.

In 2016, 85.35% of ENDESA employees took part in processes to appraise their professional performance and development through one of ENDESA's assessment systems.

ENDESA has also continued to work on professional development in recent years, including individual interviews to get to know staff (“Conocer”), coaching, mentoring and reverse mentoring, consultations to develop teams, workshops to develop skills, talks on business knowledge and definition of succession plans.

11.6. Training

In 2016 ENDESA held 3,150 training events. 8,728 employees signed up for these activities. 444,063.4 training hours were given, with an average of 45.8 hours per employee (40.1 hours per employee in 2015). To undertake this activity, ENDESA invested Euros 27 million (including the cost of work time), of which Euros 4 million were accounted for by direct training costs.

ENDESA establishes its annual Training Plan to promote proper development of people within its organisation in terms of safety and efficiency, and to encourage professional development of its staff. The 2016 Training Plan centred on achievement of the Company's strategic objectives and on promoting its values of responsibility, innovation, proactivity and confidence.

New internal training procedures were implemented in 2016 to gain more of an insight into people's needs and priorities, and thus boost efficiency. These improvements were reflected in a general increase in training activity.

ENDESA's commitment to compliance with legislation in force concerning each and every area in which it operates entails a large number of training activities - safety, prevention of criminal risk, sustainability and the environment.

With regard to Occupational Health and Safety, the employment hazards prevention courses are compulsory for all employees, and consist of both an online methodology and practical classes, depending on contents and the target audience. Specific courses of action are carried out for positions with specific levels of responsibility in relation to prevention, such as the Prevention Representatives, Prevention Resources and members of emergency teams. Courses and recycling workshops are used to update knowledge of regulations and also of ENDESA's own procedures.

With respect to the prevention of criminal risks, in the wake of the 2015 campaign a new Criminal Risk Prevention course was rolled out for new employees, and a "catch-up" course for those who were unable to attend the previous year. The course was arranged by the Audit area, and aimed to instruct employees and make them aware of the responsibilities and risks involved in their habitual tasks, in order to prevent any criminal offences.

ENDESA's Code of Ethics and Zero Corruption Tolerance Plan furnish training courses to provide in-depth knowledge. Some mention must be made of the online "EDE" Conduct Course rolled out this year for all employees working in Distribution.

The major process of transformation towards a new energy model necessarily entails a focus on sustainability, and this is the objective of the Group's Open Power facility. An innovative training programme was set up in the course of the year 2016: "Súmate al reto energético" (Join the energy challenge). The aim is to spread awareness among ENDESA employees and inform and train them in sustainability and the Company's stance in this regard. The idea is that ENDESA employees will be able to take sustainability principles on board in both their professional and private lives, and their energy behaviour will act as a model for society at large.

In 2016 work also continued on environmental programs to comply with the requirements for renewal of the Company's ISO 14001 and Integrated Environmental, Energy Efficiency and Indoor Air Quality Management System certificates.

Within a digitalisation environment, digital transformation programs have become particularly important, and more than 11,142 hours were taught in the course of the year using methodologies such as: webinars, workshops, e-learning, in situ classes etc. An “e-talent” training program was devised to generate a change of cultures and mindsets. The "viralisers" identified during the program generated an impact on 15% of employees.

Courses in management skills, social skills and leadership were implemented transversally among different lines of business and support areas. These aim to fine-tune the skills of the different categories and professional units in a bid to spread the corporate culture. Investment increased significantly in 2016, surpassing 65,000 hours of instruction.

Another of ENDESA's concerns over the years has been technical capacitation for its employees. This assists their professional development and gives them the qualifications to go about their tasks. Almost 379,000 hours of technical instruction were taught in 2016 at the Generation, Renewables, Distribution, Supply,, IT, Purchases and Support Areas.

Finally, since it forms part of a multinational, ENDESA is keen to provide language classes, chiefly English and Italian, with a wide range of program in different formats.

11.7. Attracting and retaining talent

In order to attract the best talent, ENDESA focuses on Employer Branding to promote the Company in the job market and present itself as an attractive place to work. The emphasis in recent years has been placed on attracting young talent, and the Company has therefore attended job fairs at different universities, international job congresses and professional training centres. Its presence at these encounters seeks to demonstrate to young people the Company's focus on innovation, and attract profiles that match the values of the Group: confidence, responsibility, innovation and proactivity.

Ideas competitions have also been arranged for university students and students on professional training courses, as have initiatives such as the "Shadowing" scheme, enabling university students to spend a day with members of ENDESA's Management. Finally, the company also sponsors initiatives to bring about encounters of young talent in different countries, such as “Pangea-Unleash 2016”.

In our digital environment, communication and relations with candidates are changing, and so the company's presence on social networks and other online platforms has been improved and enhanced, thus boosting recruitment.

In 2016, 154 young graduates were engaged on the Grants Program. The Program boosts their employability and allows them to put into practice the knowledge acquired at university, and begin a professional career.

20% of them were taken on after their grants expired, and work is ongoing to increase this percentage year by year.

ENDESA is also keen to cover vacancies through internal promotions, giving priority to employees who have shown themselves to be exceptional performers. The keynotes of selection processes are diversity, meritocracy and corporate values.

ENDESA not only carries out internal selection processes for each country, but also occasionally arranges professional employee swaps between countries. This aspect has come to the fore since ENDESA joined the ENEL Group.

11.8. Social dialogue

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

In Spain and Portugal there were 4 collective agreements in operation at the end of 2016 affecting 9,103 employees, 93.9% of the workforce.

Existing Spanish employment legislation and ENDESA's employment regulations in Spain (IV Collective Framework Agreement and the Guarantees Framework Agreement for ENDESA SA and its electricity subsidiaries in Spain, Agreement on Voluntary Suspension) establish the criteria that should be adhered to in the event of business reorganisation and corporate restructuring (Chapter III of the Guarantees Framework Agreement). It is also established that corporate restructuring operations shall be made known to employee representatives at least 30 days before they come into effect.

The most important actions regarding collective bargaining in 2016 were as follows:

- Negotiation and agreement on the transfer of workers between different companies.

- Negotiation of reorganisation of the commercial cycle.

- Negotiation of the new organisation of the medium/low voltage network at ENDESA Distribución Eléctrica, S.L.U.

- Agreement to include ENDESA Servicios, S.L.U. within the functional scope of the IV Collective Framework Agreement.

With regard to ENDESA in Spain, negotiations for ENDESA's V Collective Framework Agreement will begin on 1 July 2017.

Spain has been an International Labour Organization (ILO) signatory since 1919, and ENDESA's conventional regulations meet the existing ILO Conventions ratified by Spain.

12. Treasury Shares

ENDESA did not hold any treasury shares at 31 December 2016, nor did it trade in treasury shares in 2016.

13. Other information

13.1. Stock Market Information

The performance of ENDESA's share price on the Madrid stock market and major indexes in 2016 and 2015 was as follows:

Percentage (%)

	Share price trend with respect to the previous year	
	2016	2015
ENDESA, S.A.(1)	**8.6**	**11.9**
Ibex-35	(2.0)	(7.2)
Eurostoxx 50	0.7	4.5
Eurostoxx Utilities	(7.8)	(5.1)

(1) Considering dividends distributed in 2016, in the gross amount of Euros 1.026 per share, the return for shareholders in 2016 was 14.2%. Considering the dividends distributed in 2015, in the gross amount of Euro 0.76 per share, the return for shareholders in 2015 was 16.5%.

Stock market information		31 December 2016	31 December 2015	% chg
Market capitalisation	(Millions of Euros) (1)	21,307	19,613	8.6
Number of shares outstanding		1,058,752,117	1,058,752,117	-
Nominal share value	(Euros)	1.2	1.2	-
Cash	(Thousand Euros) (2)	10,783,803	16,500,861	(34.6)
Madrid stock exchange	(Shares)			
Trading volume	(3)	596,186,291	919,800,874	(35.2)
Average daily trading volume	(4)	2,319,791	3,592,972	(35.4)
P.E.R.	(5)	15.1	18.1	

(1) Market capitalisation = Number of shares at 31 December * Year-end price listing.
(2) Cash = Sum of all share transactions concluded during the reference period.
(3) Trading volume = total volume of ENDESA, S.A. shares traded during the period (Source: Madrid Stock Exchange).
(4) Average daily trading volume = arithmetic average of ENDESA, S.A. shares traded per session during the period (Source: Madrid Stock Exchange).
(5) Price to Earnings Ratio (P.E.R.) = Closing price / Earnings per share

Euros

	ENDESA, S.A. share price		
	2016	2015	% chg
Maximum	20,975	20,585	1.9
Minimum	15,735	15,565	1.1
Average in the period	18,151	18,234	(0.5)
Closing price	20,125	18,525	8.6

The year 2016 on the stock market was a year of surges and dips, with major political encounters generating much concern on markets. One such event was the decision of the United Kingdom in June to leave the European Union, and the Italian referendum in December with a proposed reform of the constitution, which was finally rejected. General elections were held in a number of countries, including the United States in November, leading to a change in the presidency that had not been anticipated in pre-election polls, and in Spain in July, although no actual government was formed until November.

Markets also kept a close watch on doubts as to a possible economic recession in China after the country took the decision to devalue its currency, and on interest rate decisions by the world's major Central Banks. The US Federal Reserve began to push up rates in December 2016, while the European Central Bank (ECB) decided to maintain and extend its debt purchase programme. This discrepancy in the monetary policies of the US and the European Union was reflected in the quasi-parity of the US dollar (USD) against the euro.

Despite this scenario of uncertainty and political risk, most of the world's stock exchanges finished the year in positive territory. The only exceptions were Italy, where the MIB lost 10.2%, and Spain, where the Ibex-35 fell by 2.01%, as the result in both cases of the pressure brought to bear by disruptions in the banking sector. The pan-European Eurostoxx 50 index closed with a slight gain of 0.7%, behind the French exchange (CAC-40: +4.86%) and its German counterpart (Dax: +6.87%), which were much more upbeat. However, the keynote among stock exchanges was the positive performance by the UK, where the FTSE 100 showed a considerable gain in the latter part of the year following the decision in the referendum to leave the European Union. The fall in sterling pound (GBP) turned in favour of British exporters, and the index closed the year with a satisfactory +14.43%, following some all-time highs.

Spain's Ibex-35 (-2.01%) finished its second year running with losses, but recovered well from the doldrums of 27 June 2016 after news of the result of the UK referendum, when it lost almost 20%. Its highest surge came during the last month of the year, 7.6%, its best December in the last 20 years, although this proved insufficient to finish the year in positive territory.

The general trend in Europe's electricity sector on the Dow Jones Eurostoxx Utilities index was also negative. The index finished the year down by 7.75% due to assets rotation in the last six months, in expectation of higher interest rates. The worst performers on the index were French and German companies, amid doubts concerning the ability of their balance sheets to cope with regulatory changes and adverse market situations. In the specific case of the 2 major German companies, E.On AG and RWE AG, both of them carried out restructuring processes, entailing division and the creation of 2 new companies which brought out stock market listings during the last quarter of the year, “Uniper SE” and “Innogy SE”, respectively.

In terms of Spanish electricity companies, which finished the year with an overall loss of around 5%, ENDESA was perceived as one of the year's main defensive shares, and led the sector with a gain of 8.64%. From the point of view of investors, the main attraction of ENDESA lies in its proportional return for shareholders in its dividend policy (see Section 13.2. Dividend Policy in this Consolidated Management Report). Another much prized aspect of the 2017-2019 Strategic Plan presented on 23 November was the new investment cycle on which the company embarked (see Section 6. Outlook in this Consolidated Management Report).

In this regard, the positive market performance of 8.64% notched up by ENDESA in 2016 must be considered alongside a dividend yield of 5.54%, with a gross dividend of Euros 1.026 per share in respect of 2015 earnings, bringing the total return on the share, calculated as the sum of the stock market return and the dividend yield, to 14.18% in 2016.

ENDESA's listing finished the year at Euros 20.125 per share, very close to the maximum for the year of Euros 20.975 on 27 December 2016. The minimum, Euros 15.735 per share, was recorded on 11 February 2016, driven down along with the rest of the Ibex-35 by fears of a Chinese recession.

13.2. 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 22 November 2016 the Board of Directors of ENDESA, S.A. approved the following shareholder remuneration policy for 2016-2019:

- 2016: the ordinary dividend per share distributed against the year will be the equivalent of 100% of net income attributable to the Parent set out in the Consolidated Financial Statements, provided that this amount is higher than the result of applying a minimum 5% increase to the ordinary dividend paid with a charge to the previous year.

- 2017-2019: the ordinary dividend per share to be distributed in respect of these years will be the equivalent of 100% of ordinary net income attributable to the Parent set out in the Consolidated Financial Statements of the Group headed by the company. Specifically for the financial year 2017, the ordinary gross dividend will be at least Euros 1.32 per share.

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 2016, at a meeting on 22 November 2016 ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2016 income of Euro 0.70 per share, which gave rise to a pay-out of Euros 741 million on 2 January 2017.

The proposed distribution of profit in 2016 to be presented at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 1.333 per share (see Section 16. Proposed Distribution of Profit in this Consolidated Management Report). Taking into account the interim dividend referred to in the preceding paragraph, the complementary dividend in respect of 2016 will be a gross amount of Euro 0.633 per share.

Details of ENDESA, S.A.'s per-share dividends in 2016 and 2015 are as follows:

	2016	2015	% chg
Share capital (1)	1,270.50	1,270.50	-
Number of shares	1,058,752,117	1,058,752,117	-
Consolidated net profit (1)	1,411	1,086	29.9
Individual net profit (1)	1,419	1,135	25.0
Earnings per share (2)(3)(4)	1,333	1,026	29.9
Gross dividend per share (2)	1,333 (5)	1,026 (6)	29.9
Consolidated pay-out (%)(7)	100.0	100.0	-
Individual pay-out (%)(8)	99.4	95.7	-

(1) Millions of Euros.
(2) Data in Euros.
(3) Corresponding to the Consolidated Financial Statements.
(4) Earnings per share = profit for the year by parent / Nº shares.
(5) Gross interim dividend of Euro 0.7 per share paid on 2 January 2017, plus an additional gross dividend of Euro 0.633 per share pending approval by the ENDESA, S.A. General Shareholders' Meeting. (see Section 16 Proposed Distribution of Profit in this Consolidated Management Report).
(6) Gross interim dividend of Euro 0.4 per share paid on 4 January 2016, plus an additional gross dividend of Euro 0.686 per share paid on 1 July 2016.
(7) Consolidated pay-out = (gross dividend per share * Nº shares) / profit for the year by Parent.
(8) Individual pay-out = (gross dividend per share * Nº shares) / profit for the year by ENDESA, S.A.

14. Information on the Average Payment Period to Suppliers

Information regarding the average payment period to suppliers in 2016 is provided in Note 22.1 of the Notes to the Consolidated Financial Statements for the year ended on 31 December 2016.

15. Annual Corporate Governance Report as required under Article 538 of Royal Legislative Decree 1/2010 of 2 July 2010 approving Spain's Revised Corporate Enterprises Act.

The 2016 Annual Corporate Governance Report is attached as Appendix I to this Consolidated Management Report and is an integral part hereof, as required by Article 538 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the consolidated text of the Spanish Corporate Enterprises Act.

16. Proposed distribution of net income.

The profit for 2016 of ENDESA, S.A., the Parent, amounted to Euros 1,418,945,712.93 euros.

The Company's Board of Directors will propose to the shareholders at the General Shareholders' Meeting that this amount be used to make a dividend payment of Euros 1.333 gross per share with the rest taken to retained earnings.

		Proposed Distribution of Profit
		Euros
To dividends	(1)	1,411,316,571.96
To retained earnings		7,629,140.97
TOTAL		**1,418,945,712.93**

(1) Maximum amount to be distributed based on Euros 1.333 gross per share for all shares.

22 February 2017

APPENDIX I

Annual Corporate Governance Report

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

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

END OF RELATIVE FINANCIAL YEAR	31/12/2016

COMPANY TAX ID (C.I.F.):	A-28023430

CORPORATE NAME:
ENDESA, S.A.

REGISTERED OFFICE
RIBERA DEL LOIRA, 60, MADRID

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the Company's share capital:

Date of last modification	Share capital (Euros)	Number of shares	Number of voting rights
01/10/1999	1,270,502,540.40	1,058,752,117	1,058,752,117

Indicate whether different types of shares exist with different associated rights.

Yes [ ] No [X]

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ENEL, S.P.A.	0	742,195,713	70.10%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
ENEL, S.P.A.	ENEL IBEROAMERICA, S.L.U.	742,195,713

Indicate the most significant movements in the shareholder structure during the year.

A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	0	30,471	0.00%
JOSE DAMIAN BOGAS GALVEZ	2,374	0	0.00%
ALEJANDRO ECHEVARRÍA BUSQUET	200	0	0.00%
HELENA REVOREDO DELVECCHIO	332	0	0.00%
MIQUEL ROCA JUNYENT	363	0	0.00%
BORJA PRADO EULATE	15,960	0	0.00%
FRANCISCO DE LACERDA	0	0	0.00%
FRANCESCO STARACE	10	0	0.00%
ENRICO VIALE	2,500	0	0.00%
LIVIO GALLO	2,500	0	0.00%
ALBERTO DE PAOLI	10	0	0.00%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
IGNACIO GARRALDA RUIZ DE VELASCO	MANILA INVERSIONES GLOBALES SICAV, S.A.	30,471

% of total voting rights held by directors	0.00%

Complete the following tables on share options held by directors of the company holding rights to company shares.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related party name or corporate name
ENEL IBEROAMERICA, S.L.U.
ENEL, S.P.A.

Type of relationship: Corporate

Brief Description:

Enel, S.p.A., owner of 100% of Enel Iberoamérica, S.L.U.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name
ENDESA INGENIERÍA, S.L.U.
ENEL SOLE, S.R.L.

Type of relationship: Corporate

Brief Description:

Endesa Ingeniería, S.L.U. (Endesa Group subsidiary) and Enel Sole, S.r.L. (Enel Group subsidiary) hold a 50% stake in the following joint ventures: Mérida, Abarán, Rincón de la Victoria, Bolullos, Castro del Río, Muro de Alcoy, Fuente Álamo, Mora de Ebro, Los Alcázares, Vélez Rubio, Écija, Almodóvar del Río and Manacor. Endesa Ingeniería, S.L.U. (10%), Endesa Energía, S.A.U. (25%) (Endesa Group subsidiary) and Enel Sole, S.r.L. (25%) (Enel Group subsidiary) hold stakes in the Móstoles temporary joint venture.

Related party name or corporate name
ENDESA GENERACIÓN, S.A.U.
ENEL, S.P.A.

Type of relationship: Corporate

Brief Description:

Endesa Generación, S.A.U. (an Endesa Group subsidiary) and Enel S.p.A. hold 40.99% and 4.32% stakes respectively in the share capital of Elcogas, S.A.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement.

Yes ☐ No ☒

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☐ No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

-

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company pursuant to Article 4 of the Securities' Market Act. If so, identify:

Yes ☒ No ☐

Name or corporate name
ENEL IBEROAMERICA, S.L.U.
ENEL, S.P.A.

Remarks
Enel, S.P.A. is the sole shareholder of Enel Iberoamérica.

A.8 Complete the following tables on the company's treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

(*) Through:

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Explain the significant changes

A.9 Give details of the applicable conditions and time periods governing any resolutions of General Shareholders' Meeting to issue, buy back or transfer treasury stock.

At the Ordinary General Meeting of 27 April 2015, shareholders authorised the Company and its subsidiaries to acquire treasury shares pursuant to the provisions of Article 146 of Spain's Corporate Enterprises Act.

I. To revoke and make void, as to the unused portion, the authorisation for the derivative acquisition of treasury shares, granted by the Ordinary General Shareholders' Meeting held on 21 June 2010.

II. To reauthorise the derivative acquisition of treasury shares, as well as the pre-emptive rights of first refusal in respect thereto, pursuant to Article 146 of Spain's Corporate Enterprises Act under the following conditions:

a) Acquisitions may be made via any legally accepted method, directly by ENDESA, S.A., by its Group companies or by proxy, up to the maximum legal limit.
b) Acquisitions shall be made at a minimum price per share of its par value and a maximum equal to their trading value plus an additional 5%.
c) The duration of this authorisation shall be 5 years.

d) As a consequence of the acquisition of shares, including those purchased previously and held at the time of the acquisition by the company or persons acting on their own behalf but in its stead, the resulting net equity shall not be reduced to below the sum of the share capital plus the restricted reserves established by law or the bylaws, all in accordance with the provisions of Article 146.1 b) of Spain's Corporate Enterprises Act.

The authorisation also includes the acquisition of shares which, as the case may be, must be delivered directly to the employees and Directors of the Company or its subsidiaries, as a consequence of the exercise of stock option rights held thereby.

A.9.bis Estimated floating capital

	%
Estimated floating capital	29.90

A.10 Indicate, as applicable, any restrictions on the transfer of shares and/or the exercise of voting rights. In particular, indicate any restrictions that could prevent a party from taking control of the company by acquiring its shares on the market.

Yes [ ] No [X]

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.

Yes [ ] No [X]

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued shares that are not traded on a regulated EU market.

Yes [ ] No [X]

If so, indicate the different classes of shares and, for each class, the rights and obligations carried thereby.

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the general shareholders' meeting. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).

Yes [ ] No [X]

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC.

Yes [ ] No [X]

Describe how they differ from the rules established under the LSC.

B.3 Indicate the rules for modifying the company's bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

Pursuant to Article 26 of the Bylaws, in order for the Ordinary or Extraordinary Shareholders' Meeting to validly agree on the amendment to the Corporate Bylaws, on first call shareholders representing at least 50% of the subscribed capital with voting rights must be present. On second call, 25% of the capital must be represented.

B.4 Indicate the attendance figures for the general shareholders' meetings held during the year and the preceding year.

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
27/04/2015	70.17%	13.09%	0.00%	1.53%	84.79%
26/04/2016	70.13%	14.45%	0.00%	1.77%	86.35%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes ☐ No ☒

B.6 Section revoked.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

The Company's website is www.endesa.com.

The website's home page provides access to content on:

- Corporate Governance via Investors-Corporate Governance.

- To access information on the General Shareholders' Meetings, a direct banner link is posted on the home page from the time the meeting is called until it is held. Once the meeting has been held, the information can be accessed through two channels:

- Investors-Corporate Governance-Shareholders' Meetings
- Investors-Shareholders-Shareholders' Meetings

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the bylaws.

Maximum number of directors	15
Minimum number of directors	9

C.1.2 Complete the following table with Board members' details.

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
IGNACIO GARRALDA RUIZ DE VELASCO		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
JOSE DAMIAN BOGAS GALVEZ		Executive	CHIEF EXECUTIVE OFFICER	07/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ALEJANDRO ECHEVARRÍA BUSQUET		Independent	DIRECTOR	25/06/2009	22/04/2013	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
HELENA REVOREDO DELVECCHIO		Independent	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
MIQUEL ROCA JUNYENT		Independent	DIRECTOR	25/06/2009	22/04/2013	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
BORJA PRADO EULATE		Executive	CHAIRMAN	20/06/2007	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCISCO DE LACERDA		Independent	DIRECTOR	27/04/2015	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
FRANCESCO STARACE		Proprietary	VICE CHAIRMAN	16/06/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ENRICO VIALE		Proprietary	DIRECTOR	21/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
LIVIO GALLO		Proprietary	DIRECTOR	21/10/2014	21/10/2014	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING
ALBERTO DE PAOLI		Proprietary	DIRECTOR	04/11/2014	27/04/2015	RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING

Total number of Directors	11

Indicate any board members who left during this period.

C.1.3 Complete the following tables on Board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of director	Post held in the company
JOSE DAMIAN BOGAS GALVEZ	Chief Executive Officer
BORJA PRADO EULATE	CHAIRMAN

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
FRANCESCO STARACE	ENEL, S.P.A.
ENRICO VIALE	ENEL, S.P.A.
LIVIO GALLO	ENEL, S.P.A.
ALBERTO DE PAOLI	ENEL, S.P.A.

Total number of proprietary directors	4
% of the board	36.36%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director:

IGNACIO GARRALDA RUIZ DE VELASCO

Profile:

Born in Madrid in 1951. Holds a degree in Law from the Complutense University of Madrid, Chartered Trade Broker and Stock and Exchange Broker.
Chairman and CEO of Mutua Madrileña, First Vice Chairman of Bolsas y Mercados Españoles (BME).

Name or corporate name of director:

ALEJANDRO ECHEVARRÍA BUSQUET

Profile:

Born in Bilbao in 1942. Holds a degree in Business Administration from the University of Deusto. Chairman of Mediaset España Comunicación, S.A.

Name or corporate name of director:

HELENA REVOREDO DELVECCHIO

Profile:

Born in Rosario (Argentina) in 1947. Holds a degree in Business Management and Administration from the Catholic University of Buenos Aires and PADE (Business Senior Management Programme) from the IESE Business School. Chairman of Prosegur Compañía de Seguridad, S.A., Chairman of the Prosegur Foundation.

Name or corporate name of director:

MIQUEL ROCA JUNYENT

Profile:

Born in Cauderan (France) in 1940. Holds a degree in Law from the University of Barcelona and an honorary doctorate from the UNED (Distance Learning University) León, Girona and Cádiz. Chairman and Partner of the Roca Junyent Law Firm, Ombudsman for Catalana Occidente.

Name or corporate name of director:

FRANCISCO DE LACERDA

Profile:

Born in Lisbon in 1960. Holds a degree in Business Administration from the Catholic University of Portugal.

President & CEO of CTT-Correos de Portugal (privatised in 2013, listed on the Lisbon stock exchange), Chairman of Banco CTT, Chairman of Cotec Portugal.

Total number of independent directors	5
% of the board	45.45%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Helena Revoredo Delvecchio is Chairman of Prosegur, and has been an independent director of Endesa since 4 November 2014.

Helena Revoredo performs her functions as an independent director of Endesa, S.A. without prejudice to the commercial relationship between Prosegur and Endesa and the investees thereof.

In 2016 the Prosegur Group drew up two security and vigilance contracts with the Endesa Group to guard Endesa facilities in Spain. The services were awarded by the Endesa Board following the results of tender processes, with no involvement by Helena Revoredo as director, pursuant to the legislation applicable to conflicts of interests. The two contracts were approved for a period of three years, for an approximate annual amount of Euros 1.1 million and Euros 1.4 million respectively.

In any case, the following must be pointed out in relation to these transactions: it was an ordinary service; the service was provided on an arm's length basis, as accredited by the external consultant's report issued in this regard; and, pursuant to international criteria in connection with good corporate governance practices, the amount is not significant or material, since the sums are well below 1% of the earnings or turnover of both companies.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

OTHER EXTERNAL DIRECTORS

The other external directors shall be identified and the reasons listed why they cannot be considered proprietary or independent directors and details shall be given of their relationships with the company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year:

C.1.4 Complete the following table on the number of female directors over the past 4 years and their category:

	Number of female directors				% of total directors of each type			
	2016	**2015**	**2014**	**2013**	**2016**	**2015**	**2014**	**2013**
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	1	1	1	0	20.00%	20.00%	33.33%	0.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	0	9.09%	9.09%	11.11%	0.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

On 10 November 2015 the Board of Directors approved a specific and attestable Policy for selecting directors, focusing on the integration of different management and professional skills and experience (including those that are specific to the businesses performed by the Company, financial and economical, and legal), and also promoting, insofar as possible, diversity of age and gender.

Particularly, with regard to gender diversity, the Company's Policy for selecting directors establishes the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020.

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

ENDESA is convinced that diversity in all of its facets, at all levels of its professional team, is an essential factor for ensuring the Company's competitiveness and a key feature of its corporate governance strategy.

Therefore, it ensures equal opportunities and fair treatment in people management at all levels, maximising the value contribution of those elements that differentiate people (gender, culture, age, capacities, etc.), promoting the participation and development of women in the organisation, especially in leadership positions and, in particular, on the Board of Directors.

In this regard, the policy for selecting directors shall promote the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020.

Selection process:

The Appointments and Remuneration Committee shall base its proposals for appointing, ratifying or re-electing on the result of an objective, attestable and transparent selection process, which shall start with a preliminary analysis of the Board of Directors' requirements, taking the integration of different management and professional experiences and skills as the objective, and promoting diversity of knowledge, experience and gender, considering the weight of the different activities performed by ENDESA and taking into account those areas or sectors that must be the object of specific promotion.

In the analysis of the candidatures, the Appointments and Remuneration Committee, taking the Board's requirements into account, shall value the following features:

i) the candidates' professional and technical skills;
ii) the candidates' management experience, also taking account of the context in which ENDESA operates;
iii) the commitment required for performing the role, also assessing the roles already performed by the candidates at other companies;
iv) the possible existence of conflicts of interest;
v) the significance of possible professional, financial or commercial relationships, existing or maintained recently, directly or indirectly, of candidates with the Company or with other Group companies; and also
vi) possible proceedings pending against the candidates, and also any criminal sentences or administrative penalties that the authorities may have imposed on them.

In the case of candidates for independent directorships, the Appointments and Remuneration Committee shall especially verify compliance with the requirements for independence established by Law.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who undertake a commitment of sufficient dedication to perform the tasks concerned.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons

This situation is exclusively due to chance, without any predetermined reasons or intention.

C.1.6 bis Explain the conclusions of the appointments committee on the verification of compliance with the policy for selecting directors. And, in particular, on how this policy is promoting the objective of the number of female directors representing at least 30% of the total number of members of the Board of Directors by 2020.

Explanation of conclusions

At a meeting on 19 December 2016 the Appointments and Remuneration Committee unanimously concluded, in connection with verification of compliance with the policy for selecting Board candidates, as follows:

- There were no directorship selection processes in 2016.
- The current composition of the Board of Directors, in terms of numbers of members, structure and the professional experience and skills of its members, is felt to be appropriate to the needs of the Company and in accordance with best corporate governance practices.
- With respect to promotion of diversity, and specifically with respect to diversity of gender, for the purposes of complying with the objective of the number of female directors representing at least 30% of the total members of the Board of Directors by 2020, this Committee continues to require that women with the desired professional profiles be included among the potential candidates in selection processes.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

70.101% of Endesa's share capital is owned by a single shareholder, the Italian company ENEL IBEROAMÉRICA, S.R.L. The Italian company Enel, S.p.A holds 100% of the shares (and the voting rights) of ENEL IBEROAMÉRICA, S.R.L.

The Board of Directors of Endesa, S.A. comprises eleven members: five independent directors, four proprietary directors (representatives of Enel, S.p.A.), and two executive directors (Chairman and Chief Executive Officer), who were appointed to their posts with Enel, S.p.A. as the controlling shareholder.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes [ ] No [X]

C.1.9 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:

C.1.10 Indicate which powers, if any, have been delegated to the Chief Executive Officer(s):

Name or corporate name of director:

JOSE DAMIAN BOGAS GALVEZ

Brief Description:

Since 7 October 2014, the Board of Directors has delegated all powers of the Board that could be delegated legally and as per the bylaws to the Chief Executive Officer.

The Chief Executive Officer of Endesa, S.A., José Damián Bogas Gálvez, shall exercise all powers delegated to him jointly with the Executive Committee of the Board of Directors, as applicable.

C.1.11 List the Directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Name or corporate name of director	Corporate name of the group company	Position	Do they have executive duties?
JOSE DAMIAN BOGAS GALVEZ	Endesa Generación II	Joint director	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company:

Name or corporate name of director	Corporate name of the group company	Position
IGNACIO GARRALDA RUIZ DE VELASCO	FAES FARMA, S.A.	DIRECTOR
IGNACIO GARRALDA RUIZ DE VELASCO	BOLSAS Y MERCADOS ESPAÑOLES SOCIEDAD HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS, S.A.	VICE CHAIRMAN
ALEJANDRO ECHEVARRÍA BUSQUET	MEDIASET ESPAÑA COMUNICACIÓN, S.A.	CHAIRMAN
HELENA REVOREDO DELVECCHIO	BANCO POPULAR ESPAÑOL, S.A.	DIRECTOR
HELENA REVOREDO DELVECCHIO	PROSEGUR COMPAÑIA DE SEGURIDAD, S.A.	CHAIRMAN
HELENA REVOREDO DELVECCHIO	MEDIASET ESPAÑA COMUNICACIÓN S.A.	DIRECTOR
MIQUEL ROCA JUNYENT	ACS. S.A.	DIRECTOR
BORJA PRADO EULATE	MEDIASET ESPAÑA COMUNICACIÓN, S.A.	DIRECTOR
FRANCISCO DE LACERDA	CTT CORREOS DE PORTUGAL	CHAIRMAN

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes [X] No [ ]

Explanation of rules

Article 10 of the ENDESA Bylaws establishes Incompatibilities for Directors and stipulates that any individual sitting on more than four boards of directors of listed companies, or eight organisations in total (including listed and unlisted companies), may not be appointed as a Director of the Company, considering that membership on various boards of directors for companies within the same group shall, for these purposes, count as one board for each group of companies. In addition, for these purposes, any board of directors on which the director sits shall not count when the board is that of a company that may submit abbreviated balance sheets and statements of changes in net equity or which is a holding company or a mere financial vehicle corporation.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the board of directors in the year:

Remuneration paid to the board of directors (thousands of Euros)	6,260

Amount of total remuneration accumulated by current directors corresponding to pension rights (thousands of Euros)	11,741
Amount of total remuneration accumulated by former directors corresponding to pension rights (thousands of Euros)	3,287

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Position
FRANCISCO BORJA ACHA BESGA	GENERAL SECRETARY AND SECRETARY OF THE BOARD OF DIRECTORS
JAVIER URIARTE MONEREO	GENERAL MANAGER MARKETING
PABLO AZCOITIA LORENTE	GENERAL MANAGER PROCUREMENT
MARÍA MALAXECHEVARRÍA GRANDE	GENERAL MANAGER SUSTAINABILITY
JOSÉ Mª GRÁVALOS LASUEN	GENERAL MANAGER NUCLEAR
ALVARO QUIRALTE ABELLO	GENERAL MANAGER ENERGY MANAGEMENT
JOSÉ LUIS PUCHE CASTILLEJO	GENERAL MANAGER RESOURCES
ALBERTO FERNÁNDEZ TORRES	GENERAL MANAGER COMMUNICATION
MANUEL MARÍN GUZMÁN	GENERAL MANAGER ICT
JOSÉ CASAS MARÍN	GENERAL MANAGER INSTITUTIONS AND REGULATION
ENRIQUE DURAND BAQUERIZO	GENERAL MANAGER AUDIT
MANUEL MORAN CASERO	GENERAL MANAGER GENERATION
PAOLO BONDI	GENERAL MANAGER ADMINISTRATION, FINANCE AND CONTROL
ANDREA LO FASO	GENERAL MANAGER HR AND ORGANISATION
FRANCESCO AMADEI	GENERAL MANAGER INFRASTRUCTURE AND NETWORKS
LUCA MINZOLINI	GENERAL MANAGER AUDIT
JUAN MARÍA MORENO MELLADO	GENERAL MANAGER NUCLEAR
ENRIQUE DE LAS MORENAS MONEO	GENERAL MANAGER RENEWABLE ENERGIES

Total remuneration received by senior management (thousands of Euros)	12,934

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of director	Corporate name of significant shareholder	Position
JOSE DAMIAN BOGAS GALVEZ	ENEL IBEROAMERICA, S.L.U.	DIRECTOR
BORJA PRADO EULATE	ENEL IBEROAMERICA, S.L.U.	DIRECTOR
FRANCESCO STARACE	ENEL, S.P.A.	CHIEF EXECUTIVE OFFICER
FRANCESCO STARACE	ENEL IBEROAMERICA, S.L.U.	CHAIRMAN
ENRICO VIALE	CESI	DIRECTOR
ENRICO VIALE	ENEL AMERICAS, S.A.	DIRECTOR
LIVIO GALLO	ENEL AMERICAS, S.A.	DIRECTOR
ALBERTO DE PAOLI	ENEL ITALIA	DIRECTOR
ALBERTO DE PAOLI	ENEL GREEN POWER, S.P.A.	CHAIRMAN

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of linked director:

ENRICO VIALE

Name or corporate name of significant linked shareholder:

ENEL, S.P.A.

Description of relationship: General

Manager - Generation

Name or corporate name of linked director:

LIVIO GALLO

Name or corporate name of significant linked shareholder: ENEL, S.P.A.

Description of relationship:

General Manager - Infrastructure and Global Networks

Name or corporate name of linked director:

ALBERTO DE PAOLI

Name or corporate name of significant linked shareholder: ENEL, S.P.A.

Description of relationship:

General Manager - Administration, Finance and Control

C.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

Yes ☐ No ☒

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Selection:
The functions of the Appointments and Remuneration Committee also include an evaluation of the competences, knowledge and experience necessary on the Board. For these purposes, it shall define the functions and aptitudes necessary for candidates to fill each vacancy, and shall evaluate the time and dedication required for them to carry out their functions properly, specifically ensuring that non-executive directors have sufficient time available to carry out their duties after the proper fashion, submitting proposals for the appointment of independent directors and notifying the appointments of other directors.

The Appointments and Remuneration Committee shall base its proposals for appointments on the outcome of an objective, verifiable and transparent selection process, which shall commence with a preliminary analysis of the requirements of the Board, aiming to secure different professional experience, skills and managerial experience, and promote diversity of knowledge, experience and gender, in due consideration of the proportion of the various areas of business carried on by Endesa and of any areas or sectors that must be specifically catered for.

In any case, proposals for the appointment, ratification or re-election of Directors made to the Board shall be made with regard to renowned persons who have the relevant experience and professional knowledge to perform their duties and who undertake a commitment of sufficient dedication to perform the tasks concerned.

For the purposes of selecting Board candidates, the Appointments and Remuneration Committee may engage the services of one or more external consultancy firms specialising in the location and selection of candidates, in a bid to boost the efficiency, effectiveness and impartiality of procedures to identify such candidates.

Appointment:

The General Shareholders' Meeting shall be responsible for both the appointment and the removal of members of the Board of Directors. The Board shall appoint Directors following a report by the Appointments and Remuneration Committee in the event of vacancies arising, until the next General Shareholders' Meeting is held.

Re-election:

The term of office of Directors shall be four years, and they may be re-elected for periods of the same duration.

The proposed re-election of Directors made by the Board of Directors to the General Shareholders' Meeting shall be made at the proposal of the Appointments and Remuneration Committee, in the case of Independent Directors, and following a report by said Committee for all other types of Directors.

Evaluation:

On an annual basis the Board of Directors shall assess the quality and efficiency of the Board's operation following a report from the Appointments and Remuneration Committee; the performance of duties by the Chairman of the Board and by the Chief Executive Officer, based on the report by the Appointments and Remuneration Committee, and the operation and composition of its Committees and of the Executive Committee, as the case may be, in view of the report submitted thereto by said Committees.

The Board of Directors shall propose, based on the results of the assessment, an action plan to correct any deficiencies identified. The results shall be included in the meeting's minutes or as an attachment thereto. Every three years, the Board of Directors shall be assisted in carrying out an assessment by an independent external consultant.

Removal:

Directorships may be renounced and revoked. The term of directorships shall be four years. The General Shareholders' Meeting shall take responsibility for the "separation" of members of the Board. Prior to this, it shall also be the responsibility of the Appointments and Remuneration Committee to propose or report to the Board on the separation of Board members, depending on whether these are independent directors or other types of directors, respectively, when: their continued presence on the Board can impair the Company's credibility and reputation; they are concerned by one of the scenarios of incompatibility or are subject to a ban; or the shareholder they represent assigns its shareholding in full or reduces its stake.

C.1.20 Explain to what extent this evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

As a result of the annual evaluation of the operation of the Board and of its Committees in 2016, there were no changes to the internal organisation of the Board or of its Committees, or to the procedures applicable to their activities.

However, a proposal was submitted for an action plan to improve, inter alia, the following aspects:

- To add to the information regularly provided for directors concerning stakeholders' perception of Endesa.
- To increase Board information sessions with members of Senior Management, in order to boost the Board's contribution to strategic planning and reflection.

C.1.20.bis Describe the evaluation process and the areas evaluated by the Board of Directors aided, where applicable, by an external consultant, with regard to diversity in its composition and powers, the operation and composition of its committees, the performance of the Chairman of the Board and the Chief Executive Officer and the performance and contribution of each Director.

In October 2016 an agreement was reached to commence the self-assessment process of the Board of Endesa S.A., in due compliance with Article 529 nonies of the LSC and Recommendation 36 of the CNMV Spanish Securities Market Commission's Code of Good Governance, which states that a plenary session of the Board must conduct an annual assessment and, where applicable, adopt an action plan to correct any deficiencies detected regarding:

- The quality and efficiency of the board's operation.
- The performance and membership of its committees.
- The diversity of Board membership and competences.
- The performance of the Chairman of the Board of Directors and the company's Chief Executive.
- The performance and contribution of individual directors, paying special attention to the Chairmen of Board committees.

The 2016 assessment was carried out without the assistance of an external consultant (the 2015 assessment was carried out with the assistance of KPMG).

The following aspects were differentiated in the assessment process:

- Assessment and self-assessment of the Board of Directors, the Audit Committee, the Appointments and Remuneration Committee, the Chairman of the Board, the Chief Executive Officer and the Secretary of the Board of Directors by members.
- Preparation of a report with the results of the questions asked and a summary with the aspects most positively and most negatively appraised by directors. The report shall also include a comparison with the results obtained the previous year.
- Improvements to be made in 2017, for the purposes of correcting any deficiencies detected.

C.1.20 (3) List, where applicable, the business relationships that the consultant or any company in its group maintains with the company or any company in its group.

C.1.21 Indicate the cases in which directors must resign.

Directors must resign and tender their official resignation if they are affected by any of the scenarios established in Article 12.2 of the Board of Directors' Regulations.

In this regard, Directors must tender their resignation to the Board of Directors when their continued presence on the Board can impair the Company's credibility and reputation or they are concerned by one of the scenarios of incompatibility or are subject to a ban laid down in the law or in the Bylaws or in Board Regulations.

Additionally, independent directors must tender their resignation to the Board of Directors when just cause is found by the Board, following a report by the Appointments and Remuneration Committee; and proprietary directors must tender their resignation when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors shall be reduced.

Likewise, Directors shall notify the Company, via the Board Secretary, of all criminal cases and proceedings in which they are defendants, as well as all developments in said cases and proceedings (Article 12.3 of the Board of Directors' Regulations).

Finally, in the event that a Director steps down, whether due to resignation or otherwise, prior to the end of the term, the Director must explain the reasons in a letter to be sent to all Board members. Without prejudice to this departure being reported as a significant event, a report must be given on the reason for the departure in the Annual Corporate Governance Report (Article 12.4 of the Board of Directors' Regulations).

C.1.22 Section revoked.

C.1.23 Are qualified majorities, other than those prescribed by law, required for any type of decisions?

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote.

Yes ☒ No ☐

Matters where the chairman has the casting vote

Pursuant to the provisions of Article 47 of the Bylaws, "Resolutions shall be adopted by absolute majority of the Board Members who, present or represented, are in attendance at the meeting. In the event there is an equal number of votes, the Chairman, or whosoever substitutes the Chairman at the meeting, shall have the casting vote. The provisions of this section shall be applicable without prejudice to those resolutions for which a qualified majority of Board Members is required in accordance with these Corporate Bylaws or current laws in force."

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

Yes ☐ No ☒

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than that stipulated in regulations.

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether any limitation has been stipulated regarding the categories that can be appointed proxy, other than any limitations imposed by law. If so, give brief details.

Article 45 of the Company Bylaws and Article 20.2 of the Board of Directors' Regulations state that each director may grant a proxy to another member of the Board of Directors. Proxies shall be granted in writing and specifically for each Board Meeting, and no Board member may hold more than three proxies, except the Chairman, to whom this limit shall not be applicable, although he cannot represent the majority of the Board of Directors. Non-executive Directors can only delegate to another non-executive Director.

C.1.29 Indicate the number of Board meetings held during the year. Also state how many times the board has met without the chairman in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of board meetings	12
Number of board meetings held in the absence of the chairman	0

If the Chairman is an executive Director, indicate the number of meetings held without an executive Director present or represented and chaired by the lead Director

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Committee	Number of meetings
Audit and Compliance Committee	14
Appointments and Remuneration Committee	8
Executive Committee	0

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of meetings with all members present	10
% of attendances of the total votes cast during the year	99.86%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes [X] No [ ]

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board.

Name	Position
JOSE DAMIAN BOGAS GALVEZ	CHIEF EXECUTIVE OFFICER
PAOLO BONDI	GENERAL MANAGER - ADMINISTRATION, FINANCE AND CONTROL

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

Prior to the Board meeting at which the financial statements are to be authorised for issue, in order to prevent the individual and consolidated financial statements thus authorised from being presented at the General Shareholders' Meeting with a qualified audit report, the auditor provides the Board of Directors with a letter setting out the main conclusions of its audit work.

C.1.33 Is the Secretary of the board also a Director?

Yes [ ] No [X]

Complete if the Secretary is not also a Director:

Name or corporate name of the secretary	Representative
FRANCISCO BORJA ACHA BESGA	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Pursuant to the provisions of Article 52 of the Bylaws, the Audit and Compliance Committee is responsible for ensuring compliance with good corporate governance and transparency of all action taken by the Company in the economic and financial area and in relation to external audits and compliance with internal audits, and to this end it is tasked with the following:

- Relations with external auditors to establish relations with the external auditors in order to receive information on issues which may pose a threat to their independence, for examination by the Committee, and any others relating to the audit process and, where relevant, the authorisation of the services other than those prohibited, under the terms established in the applicable legislation in relation to the need for independence, and any other communications provided for in audit legislation and audit regulations.
- Supervise the efficiency of the company's internal control system and risk management systems, and discuss with the auditor any significant weaknesses in the internal control system detected during the audit. For such purposes, and if appropriate, it may submit recommendations or proposals to the management body and the corresponding deadline for follow-up.
- Supervise the process for preparation and presentation of mandatory financial information, and present recommendations or proposals to the management body to safeguard its integrity.
- Make recommendations to the Board of Directors for the selection, appointment, reappointment and removal of the auditor, taking responsibility for the selection process, pursuant to the provisions of the regulations applicable, and the terms of engagement, and receive regular information from the auditor on the audit plan and the actual audit, in addition to preserving independence in the exercise of the auditor's functions.

In any case, the Audit and Compliance Committee shall also receive annually from the external auditors a statement of their independence vis-à-vis the company or entities directly or indirectly related to the company, as well as detailed individualised information on the additional services of any type provided and the corresponding fees received from these entities by the external auditor or by persons or entities related to the auditor, in accordance with the provisions of audit legislation.

Moreover, there is no relationship other than that arising from professional activities with financial analysts, investment banks and credit rating agencies.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes ☐ No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes ☒ No ☐

	Company	Group	Total
Amount of non-audit work (in thousands of Euros)	182	0	182
Amount of non-audit work/Total amount billed by the audit firm (%)	9.93%	0.00%	5.09%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.

Yes ☐ No ☒

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	6	6

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	16.66%	20.69%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes [X] No [ ]

Details of the procedure

Article 29 of the Board of Directors' Regulations governs the right to advice and information. The Directors, as required to perform their duties, have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advice required in relation to any matter. The right to information extends to investees, and shall be requested by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for any explanations it deems relevant. This request shall be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

The majority of the Directors and the Lead Director may also make proposals to the Board regarding the engagement, at the Company's expense, of any legal, accounting, technical, financial, commercial or other advisers they consider necessary in order to assist them in performing their duties as related to specific problems of a certain importance and complexity related to the exercise of their functions.

This proposal must be notified to the Company Chairman through the Board Secretary and conveyed by the Chief Executive Officer. The Board may refuse to approve financing for the advisory services referred to in the preceding paragraph on the grounds that they are not necessary to perform the functions entrusted, that their amount is disproportionate to the importance of the problem, or if it considers that such technical assistance could be adequately provided by Company personnel.

The Company shall establish an orientation programme which shall provide new Directors with speedy and sufficient knowledge of the Company, and of its rules of corporate governance. In addition, it shall also offer Directors knowledge recycling programmes when circumstances so advise.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes [X] No [ ]

Details of the procedure

Article 18 of the Board of Directors' Regulations stipulates that the call to meeting of the Board shall be made with the required notice, at least 48 hours before the date set for the meeting, to each of the directors and shall include the agenda, clearly identifying the items on which the Board of Directors shall make a decision or adopt a resolution so that the directors may study or gather in advance the information required to make such decisions. The minutes of the preceding meeting shall also be attached.

The Directors have a computer application for the purposes of managing the documentation of meetings of the Company's Board and of its Committees, which assists their right to information and the availability of and access to this information.

Pursuant to Board Regulations, as required to perform their duties, Directors have access to all of the Company's services and have a duty to request, and the right to gather, all information from the Company which may be appropriate or necessary in order to perform their duties, as well as any advice required in relation to any matter. The right to information extends to investees and shall be requested by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

Furthermore, the Board may request information on the actions of Senior Management of the Company and may ask for any explanations it deems relevant. This request shall be made by the Chairman through the Board Secretary and conveyed by the Chief Executive Officer.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's credibility or reputation, tendering their resignation as the case may be.

Yes [X] No [ ]

Details of rules

Directors must resign and tender their official resignation if they are affected by any of the scenarios established in Article 12.2 of the Board of Directors' Regulations.

In this regard, Directors must tender their resignation to the Board of Directors when their continued presence on the Board can impair the Company's credibility and reputation or they are concerned by one of the scenarios of incompatibility or are subject to a ban laid down in the law or in the Bylaws or in Board Regulations.

Additionally, independent directors must tender their resignation to the Board of Directors when just cause is found by the Board, following a report by the Appointments and Remuneration Committee; and proprietary directors must tender their resignation when the shareholders that they represent transfer their equity stake in its entirety, or reduce it. In the latter case, the corresponding number of proprietary directors shall be reduced. Likewise, Directors shall notify the Company, via the Board Secretary, of all criminal cases and proceedings in which they are defendants, as well as all developments in said cases and proceedings (Article 12.3 of the Board of Directors' Regulations).

Finally, in the event that a Director steps down, whether due to resignation or otherwise, prior to the end of the term, the Director must explain the reasons in a letter to be sent to all Board members. Without prejudice to this departure being reported as a significant event, a report must be given on the reason for the departure in the Annual Corporate Governance Report (Article 12.4 of the Board of Directors' Regulations).

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Corporate Enterprises Act (LSC):

Yes [ ] No [X]

Indicate whether the Board of Directors has examined the matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

ENDESA, S.A. has loans and other financial agreements with banks and Enel Finance International, N.V. of approximately Euros 5,250 million, with debt outstanding at 31 December 2016 in the amount of Euros 3,450 million, which might have to be repaid early in the event of a change in control at ENDESA.

Moreover, a number of Endesa's renewables subsidiaries with project funding with an outstanding amount of Euros 178 million and derivatives associated with negative net market value of Euros 17 million might also have to be repaid early in the event of a change in control at ENDESA.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other operation.

Number of beneficiaries 25

Type of beneficiary

Executive directors, senior executives and executives

Description of resolution:

These clauses are the same in all the contracts of the Executive Directors and senior executives of the Company and of its Group and were approved by the Board of Directors following the report of the Appointments and Remuneration Committee and provide for termination benefits in the event of termination of the employment relationship and a post-contractual non-competition clause.
With regard to management, although this type of termination clause is not the norm, the contents of cases in which it arises are similar to the scenarios of general employment relationships.

Furthermore, the Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.

The regime for these clauses is as follows.

Termination of the employment relationship:

- By mutual agreement: termination benefit equal to an amount between 1 and 3 times the annual remuneration, on a case-by-case basis. ENDESA's 2016-2018 Directors' Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.

– At the unilateral decision of the manager: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on a serious and culpable breach by the Company of its obligations, the position is eliminated, or in the event of a change of control or any of the other causes for compensation for termination stipulated in Royal Decree 1382/1985.

– As a result of termination by the Company: termination benefit equal to that described in the first point.

– At the decision of the Company based on serious wilful misconduct or negligence by the executive in discharging duties: no entitlement to termination benefit.

These conditions are alternatives to those arising from changes to the pre-existing employment relationship or its termination due to early retirement for senior executives.

Post-contractual non-competition clause: In the vast majority of contracts, senior executives are required not to engage in a business activity in competition with ENDESA for a period of two years; as consideration, the executive is entitled to an amount equal to up to 1 times the annual fixed remuneration payment.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	**General Shareholders' Meeting**
Body authorising clauses	**Yes**	**No**

	Yes	**No**
Is the General Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors on the committees:

Audit and Compliance Committee

Name	Position	Category
IGNACIO GARRALDA RUIZ DE VELASCO	CHAIRMAN	Independent
ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
HELENA REVOREDO DELVECCHIO	MEMBER	Independent
FRANCISCO DE LACERDA	MEMBER	Independent
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The Audit and Compliance Committee shall comprise a minimum of three and a maximum of six members of the Board of Directors. It shall be exclusively composed of non-executive directors, the majority of whom must be independent directors.

The Chairman of the Audit and Compliance Committee shall be appointed by the independent directors forming part of the Committee. The Chairman shall be proposed and appointed in due consideration of his or her knowledge and experience of accounting, audit or risk management. Members of the Audit and Compliance Committee shall carry out their functions for 4 years, and may be re-elected for periods of the same duration. The Chairman must be substituted every 4 years, and may be re-elected one year after vacating the post.

The Audit and Compliance Committee shall meet as often as it is convened by its Chairman, when so resolved by the majority of its members or at the request of the Board of Directors or the Lead Director. Committee meetings shall be quorate when the majority of the Committee members attend in person or by proxy. Resolutions must be adopted with the favourable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

The Secretary of the Committee shall be that of the Board of Directors and shall draft the minutes of the resolutions passed thereat, and the Board shall be informed of these resolutions.

The main task of the Committee shall be to promote good corporate governance and ensure the transparency of all actions of the Company in the areas of economics and finance, external audits, compliance and internal audits, and it shall in any event be tasked with competences relating to legal audits; the process of drawing up economic and financial information; internal control systems and risk management; tax issues and corporate social responsibility and sustainability.

The main tasks of the Committee in 2016 were, inter alia, the provision of information to the Board concerning the Company's Financial Information; recommendation to the Board of the proposal to re-elect the statutory auditor of Endesa's financial statements, Ernst & Young, for 2017-2019; supervision of internal control systems and risk management in connection with financial information; information for the Board concerning modifications to internal regulations, in due consideration of legislative changes concerning market abuse; and information for the Board in connection with related-party transactions.

Identify the Director who has been appointed Chairman of the Audit Committee on the basis of knowledge and experience of accounting or auditing, or both, and state the number of years this person has been the Chairman.

Name of Director with experience	IGNACIO GARRALDA RUIZ DE VELASCO
Number of years as Chairman	0

Appointments and Remuneration Committee

Name	Position	Category
MIQUEL ROCA JUNYENT	CHAIRMAN	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
HELENA REVOREDO DELVECCHIO	MEMBER	Independent

Name	Position	Category
FRANCISCO DE LACERDA	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent

% of proprietary directors	16.67%
% of independent directors	83.33%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe its organisational and operational rules and procedures and summarise its major activities during the year.

The Appointments and Remuneration Committee shall be formed by a minimum of 3 and a maximum of 6 non-executive Members of the Board of Directors, at least 2 of whom must be independent directors. The Chairman of the Appointments and Remuneration Committee shall be appointed by the Board of Directors from among the Independent Directors forming part of the Committee.

The Appointments and Remuneration Committee shall meet as often as convened by its Chairman, when so resolved by the majority of its members, or at the request of the Board of Directors. Committee meetings shall be quorate when the majority of the Committee members attend in person or by proxy.

Resolutions must be adopted with the favourable vote of the majority of the Directors attending the meeting. In the event of a tie, the Chairman or Acting Chairman shall have the casting vote.

The Appointments and Remuneration Committee may seek external advice. The Secretary of the Committee shall be that of the Board of Directors and shall draft the minutes of the resolutions passed thereat, and the Board shall be informed of these resolutions.

The Appointments and Remuneration Committee shall have the following functions:
To assess the skills, knowledge and experience needed on the Board of Directors, in order to make proposals for the selection, appointment, re-election and separation of Board members; propose members to form part of the Executive Committee and each of the Committees; raise proposals for the appointment and separation of Senior Management, the basic terms and conditions of their contracts and remuneration; propose the adoption of remuneration schemes for Senior Management and table proposals to the Board concerning Directors' remuneration policy, individual remuneration and the other contractual conditions of executive Directors; establish a representation target for the less represented sex on the Board; examine and organise the succession of the Chairman of the Board and the Chief Executive Officer, among other functions.

The main functions of the Committee in 2016 were information and proposals to the Board concerning Directors' remuneration policy for the years 2016, 2017 and 2018; update of the remuneration of the Chief Executive Officer; update of the remuneration of the Chairmen of Board Committees and of the Lead Director; and the succession plan for the Chairman of the Board and the Chief Executive Officer, among other functions.

Executive Committee

Name	Position	Category
JOSE DAMIAN BOGAS GALVEZ	MEMBER	Executive
BORJA PRADO EULATE	CHAIRMAN	Executive
FRANCESCO STARACE	MEMBER	Proprietary
ALEJANDRO ECHEVARRÍA BUSQUET	MEMBER	Independent
IGNACIO GARRALDA RUIZ DE VELASCO	MEMBER	Independent
ALBERTO DE PAOLI	MEMBER	Proprietary
MIQUEL ROCA JUNYENT	MEMBER	Independent

% of executive directors	28.57%
% of proprietary directors	28.57%
% of independent directors	42.86%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe its organisational and operational rules and procedures and summarise its major activities during the year.

Article 22 of Board Regulations, which regulates the composition and operating system of the Executive Committee, firstly establishes its optional nature, and also establishes the following organisational and operational rules:

The Executive Committee, if any, shall be composed of at least 5 and not more than 7 Directors, including the Chairman and the Chief Executive Officer. The Chairman of the Board of Directors shall chair the Executive Committee, and the Secretary of the Board of Directors shall act as such on the Executive Committee. The rules on substituting these officers are as stipulated for the Board of Directors.

The composition of the Executive Committee must reasonably reflect the structure of the Board.

The Executive Committee shall have the power to adopt resolutions related to the powers delegated to it by the Board, and any other resolutions which may need to be adopted in the event of any emergency.

Members of the Executive Committee shall be appointed following a proposal by the Appointments and Remuneration Committee, and appointments shall require a vote in favour by at least two thirds of the members of the Board.

Resolutions of the Executive Committee on matters for which it has been delegated powers by the Board must be implemented as soon as they have been adopted. However, in cases where, in the opinion of the Chairman or of the majority of the members of the Executive Committee, the importance of the matter so advises, the resolutions of the Executive Committee shall be submitted for subsequent ratification by the Board.

The Secretary of the Executive Committee, who shall be the Secretary of the Board, shall draw up the minutes of the resolutions adopted, and apprise the Board of these. The minutes must be made available to all Board members.

It should be pointed out that the Executive Committee did not meet in 2016.

Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:

Yes [X] No [ ]

C.2. Complete the following table regarding the number of female directors serving on the board committees during the past four years:

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	1	16.65%	1	16.65%	1	20.00%		
Appointments and Remuneration Committee	1	16.65%	1	16.65%	1	20.00%		
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Section revoked.

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

AUDIT AND COMPLIANCE COMMITTEE
The Audit and Compliance Committee is regulated by the Bylaws, the Board Regulations and also by the Regulations of the Audit and Compliance Committee, which were approved by the Board in October 2016.

These regulations can be consulted on the Company's website www.endesa.com.

The Regulations of the Audit Committee provide sufficient detail of the attributions or competences, or specifically the responsibilities of the Committee, although they also set out aspects of its composition and functioning.

To draw up the Regulations of the Audit and Compliance Committee, as is the case with Endesa's other internal regulations, forming part of its Corporate Governance System, consideration was taken of the CNMV recommendations in connection with the good governance code for listed companies and recent amendments to the LSC, in compliance with Law 22/2015 of 20 July on the Auditing of Accounts.

In this regard, some mention should be made of the amendments to the Company's Bylaws, as approved at the 2016 Ordinary General Shareholders' Meeting, concerning Article 52 "Audit and Compliance Committee" and Article 58 "Appointment of Auditors".
Article 52 was amended with certain technical improvements to transfer the regulation of strict issues in relation to functioning to the regulations of the committees, and also to adapt its contents to the provisions of Article 529 quaterdecies of the new version of the Corporate Enterprises Act in accordance with Law 22/2015 of 20 July on the Auditing of Accounts, which came into force on 17 June 2016.
The technical precision set out in Article 22 of Law 22/2015 of 20 July on the Auditing of Accounts, which came into force on 17 June 2016, was added to Article 58, concerning the maximum timeframe for contracting audit services in successive extensions, and a reference to the total maximum contracting period laid down in law at any given time.

The Audit Committee issues an annual report on the activities of the Audit and Compliance Committee, among other reports.

APPOINTMENTS AND REMUNERATION COMMITTEE
The Appointments and Remuneration Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com.

The changes to the Bylaws at the 2016 Ordinary General Shareholders' Meeting included an amendment to Article 41 regulating the remuneration of directors and, as stipulated in Article 219.1 of the Corporate Enterprises Act, the possibility was added to the Bylaws of the remuneration system for executive directors including the delivery of shares or share options, or remuneration pegged to share prices.

The Appointments and Remuneration Committee produces an annual Activity Report.

EXECUTIVE COMMITTEE
The Executive Committee is regulated by the Bylaws and the Board of Directors' Regulations. These regulations can be consulted on the Company's website www.endesa.com.
The Executive Committee did not meet in 2016.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party and intragroup transactions.

Procedure for reporting the approval of related-party transactions

The Procedure for approval of Related-party Transactions is set out in Endesa's Regulations for Related-Party Transactions, approved by the Board of Directors on 22 February 2016.

Procedure for the request for approval of Related-party Transactions with Directors:

1. Endesa Directors must request preliminary approval from the Board of Directors, through the General Secretary and the Board of Directors, for any transaction that they or their related parties intend to perform with Endesa or with any company in the Endesa Group.
2. When the Secretary is a Director and is the party requesting authorisation, authorisation is sought from the Chairman of the Board.
3. The request must state: (a) The Director or the related party who is to carry out the transaction, and the nature of their relationship. (b) The identity of the Endesa Group company with which the transaction is to be carried out. (c) The purpose, amount and main terms and conditions of the transaction. (d) The motivation for the transaction. (e) Any other information or circumstances deemed relevant to appraise the transaction.
4. Without prejudice to section 1 above, Senior Management with knowledge of a possible related-party transaction with Directors or their related parties shall notify this circumstance to the General Secretary and the Board Secretary and the General Manager of Administration, Finance and Control at Endesa.

Procedure for the request for approval of Related-party Transactions with significant shareholders:

1. Any transactions by Endesa or Endesa Group companies with significant shareholders or their related parties must be approved by the Board of Directors, after a report by the Audit and Compliance Committee.
2. Senior Management in the Endesa Group must seek, through the General Secretary and the Board Secretary, approval for any transactions that Endesa or any company in the Endesa Group intends to carry out with significant shareholders or their related parties. Senior Management must also notify this request to the General Manager of Administration, Finance and Control at Endesa.
3. The request must state the following: (a) The significant shareholder or the significant shareholder's related party who is to carry out the transaction, and the nature of their relationship. (b) The identity of the Endesa Group company with which the transaction is to be carried out. (c) The purpose, amount and main terms and conditions of the transaction. (d) The motivation for the transaction. (e) Any other information or circumstances deemed relevant to appraise the transaction.

Approval of the transaction by the Board of Directors:
1. When the transaction must be approved by the Board of Directors, the General Secretary and Board Secretary shall ask the Audit and Compliance Committee to issue its report, and shall send it the information collated concerning the transaction.
2. The Audit and Compliance Committee shall analyse this information and shall issue a report on the transaction, and to this end it may request any further information it deems necessary, through the General Secretary and the Board. Pursuant to the provisions of Board Regulations, the Audit and Compliance Committee may use any external advisors it deems fit to issue this report.
3. The report by the Audit and Compliance Committee shall be submitted to the Board to enable it to rule as appropriate in relation to authorisation for the transaction.
4. In emergency circumstances, duly substantiated, the Chief Executive Officer may approve the transaction, which must be ratified by the first meeting of the Board held after the decision has been taken.

Obligation to abstain from participating in decision-making by Directors:
Any Directors who intend to carry out the transaction or who are related parties of the person who intends to carry it out, or the Director who is also the significant shareholder or a related party of the significant shareholder, and Directors that have been designated at the request of the aforementioned significant shareholder or Directors who, for any other reason, are affected by a conflict of interests, must abstain from deliberating and voting on the issue concerned, in such a way as to guarantee the independence of the Directors approving the related-party transaction.

In the case of related-party transactions with Directors and significant shareholders, the approval of the Board shall not be required (although details must nevertheless be furnished to the General Secretary and the Board Secretary) for related-party transactions with Directors and their related parties which simultaneously meet the following requirements: they are carried out by virtue of contracts the conditions of which have been standardised and apply en masse to a large number of customers; they are carried out at prices or tariffs generally established by the party acting as supplier of the goods or services concerned; they are insignificant transactions, understood as transactions the information on which is not necessary to express a true image of the assets, the financial position and results of Endesa. In any event, transactions may only be considered insignificant if their amount does not exceed one per cent of Endesa's annual earnings.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
ENEL IBEROAMERICA, S.L.U.	ENDESA FINANCIACIÓN FILIALES	Contractual	Interest paid	8
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Management contracts	1,773
ENEL, S.P.A.	ENDESA ENERGÍA XXI, SL	Contractual	Management contracts	111
ENEL, S.P.A.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, SL	Contractual	Management contracts	139
ENEL, S.P.A.	ENDESA SERVICIOS, SL	Contractual	Management contracts	14
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Management contracts	16,768
ENEL, S.P.A.	EMPRESA CARBONIFERA DEL SUR, SA	Contractual	Management contracts	15
ENEL, S.P.A.	UNIÓN ELECTRICA DE CANARIAS GENERACIÓN, SA	Contractual	Management contracts	3,357
ENEL, S.P.A.	GAS Y ELECTRICIDAD GENERACIÓN, SA	Contractual	Management contracts	1,961
ENEL, S.P.A.	DISTRIBUIDORA ELÉCTRICA DEL PUERTO DE LA CRUZ, SA	Contractual	Management contracts	24
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Management contracts	60
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Management contracts	16,870
ENEL, S.P.A.	ENDESA INGENIERÍA, SL	Contractual	Management contracts	70
ENEL, S.P.A.	ENDESA FINANCIACIÓN FILIALES	Contractual	Partnership agreements	1

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Operating lease agreements	58
ENEL, S.P.A.	DISTRIBUIDORA ELÉCTRICA DEL PUERTO DE LA CRUZ, SA	Contractual	Property, plant and equipment purchases	9
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Services rendered	1,674
ENEL, S.P.A.	ENDESA ENERGÍA XXI, SL	Contractual	Rendering of services	10
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Rendering of services	155
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Services rendered	2,477
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Services rendered	612
ENEL, S.P.A.	ENDESA SA	Contractual	Services rendered	905
ENEL, S.P.A.	HIDROELÉCTRICA DE CATALUNYA, SL	Contractual	Management contracts	10
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Purchase of finished goods and work in progress	96,155
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Purchase of finished goods and work in progress	79,733
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Purchase of finished goods and work in progress	12,704
ENEL, S.P.A.	ENDESA INGENIERÍA, SL	Contractual	Rendering of services	1,630
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Other	487
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Other	292,143
ENEL, S.P.A.	ENDESA SA	Contractual	Interest paid	92,810
ENEL, S.P.A.	ENDESA SA	Contractual	Management contracts	783
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Rendering of services	135
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Rendering of services	710
ENEL, S.P.A.	ENDESA SERVICIOS, SL	Contractual	Other	300
ENEL, S.P.A.	ENDESA RED, S.A.	Contractual	Rendering of services	169
ENEL, S.P.A.	ENDESA ENERGÍA, SA	Contractual	Sale of finished goods and work in progress	41,477
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Sale of finished goods and work in progress	6,133
ENEL, S.P.A.	ENDESA SA	Contractual	Other	5,817
ENEL, S.P.A.	ENDESA SA	Contractual	Financing agreements: loans	3,000,000
ENEL, S.P.A.	ENDESA SA	Contractual	Guarantees and endorsements	130,000
ENEL, S.P.A.	ENDESA GENERACIÓN, SA	Contractual	Property, plant and equipment purchases	110,345
ENEL IBEROAMERICA, S.L.U.	EMPRESA CARBONIFERA DEL SUR, SA	Contractual	Services rendered	305
ENEL IBEROAMERICA, S.L.U.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Services rendered	58,495
ENEL IBEROAMERICA, S.L.U.	ENDESA ENERGÍA, SA	Contractual	Services rendered	41,753
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN, SA	Contractual	Services rendered	244
ENEL IBEROAMERICA, S.L.U.	ENDESA INGENIERÍA, SL	Contractual	Services rendered	70
ENEL IBEROAMERICA, S.L.U.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES, SL	Contractual	Services rendered	9,680
ENEL IBEROAMERICA, S.L.U.	ENDESA RED, S.A.	Contractual	Services rendered	690
ENEL IBEROAMERICA, S.L.U.	ENDESA SERVICIOS, SL	Contractual	Services rendered	104
ENEL IBEROAMERICA, S.L.U.	ENDESA SA	Contractual	Services rendered	23,120
ENEL IBEROAMERICA, S.L.U.	GAS Y ELECTRICIDAD GENERACIÓN, SA	Contractual	Services rendered	1,151
ENEL IBEROAMERICA, S.L.U.	UNIÓN ELECTRICA DE CANARIAS GENERACIÓN, SA	Contractual	Services rendered	2,264
ENEL IBEROAMERICA, S.L.U.	ENDESA SA	Contractual	Management contracts	3,564
ENEL IBEROAMERICA, S.L.U.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Operating lease agreements	520
ENEL IBEROAMERICA, S.L.U.	ENDESA SERVICIOS, SL	Contractual	Operating lease agreements	4,047
ENEL IBEROAMERICA, S.L.U.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Rendering of services	850

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of Euros)
ENEL IBEROAMERICA, S.L.U.	ENDESA SERVICIOS, SL	Contractual	Rendering of services	1,249
ENEL IBEROAMERICA, S.L.U.	ENDESA DISTRIBUCIÓN ELECTRICA	Contractual	Property, plant and equipment purchases	32,735
ENEL IBEROAMERICA, S.L.U.	ENDESA ENERGÍA, SA	Contractual	Property, plant and equipment purchases	24,834
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN, SA	Contractual	Property, plant and equipment purchases	1,884
ENEL IBEROAMERICA, S.L.U.	ENDESA SA	Contractual	Property, plant and equipment purchases	22,863
ENEL IBEROAMERICA, S.L.U.	GAS Y ELECTRICIDAD GENERACIÓN, SA	Contractual	Property, plant and equipment purchases	81
ENEL IBEROAMERICA, S.L.U.	UNIÓN ELECTRICA DE CANARIAS GENERACIÓN, SA	Contractual	Property, plant and equipment purchases	186
ENEL IBEROAMERICA, S.L.U.	ENDESA SA	Corporate	Dividends and other distributions	761,493
ENEL IBEROAMERICA, S.L.U.	ASOCIACIÓN NUCLEAR ASCÓ-VANDELLOS II, AIE	Contractual	Services rendered	128
ENEL IBEROAMERICA, S.L.U.	ENDESA ENERGÍA, SA	Contractual	Property, plant and equipment purchases	36,021
ENEL IBEROAMERICA, S.L.U.	ENDESA FINANCIACIÓN FILIALES, SA	Contractual	Interest charged	140
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN PORTUGAL, SA	Contractual	Services rendered	29
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN, SA	Contractual	Services rendered	11,986
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN, SA	Contractual	Other	1,670
ENEL IBEROAMERICA, S.L.U.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES	Contractual	Rendering of services	56
ENEL IBEROAMERICA, S.L.U.	ENDESA OPERACIONES Y SERVICIOS COMERCIALES	Contractual	Property, plant and equipment purchases	21
ENEL IBEROAMERICA, S.L.U.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Services rendered	530
ENEL IBEROAMERICA, S.L.U.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Rendering of services	60
ENEL IBEROAMERICA, S.L.U.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Other	6
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELÉCTRICA, SL	Contractual	Other	36
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA, SL	Contractual	Property, plant and equipment purchases	18,061
ENEL, S.P.A.	ENDESA DISTRIBUCIÓN ELECTRICA, SL	Contractual	Guarantees and endorsements	115,400
ENEL, S.P.A.	ENDESA GENERACIÓN PORTUGAL	Contractual	Management contracts	8
ENEL, S.P.A.	ENDESA GENERACIÓN, S.A.	Contractual	Guarantees and endorsements	18,034
ENEL, S.P.A.	ENDESA, S.A.	Contractual	Interest charged	40
ENEL, S.P.A.	ENDESA, SA	Contractual	Property, plant and equipment purchases	1,407
ENEL, S.P.A.	ENDESA, SA	Contractual	Other instruments that could imply a transfer of resources of or obligations between the company and the related party	200,000
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA	Contractual	Interest paid	130
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, S.L.	Contractual	Management contracts	190
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Services rendered	130
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Interest charged	20
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Rendering of services	3,410
ENEL, S.P.A.	ENEL GREEN POWER ESPAÑA, SL	Contractual	Other	481
ENEL IBEROAMERICA, S.L.U.	ENDESA ENERGÍA, SA	Contractual	Sale of finished goods and work in progress	189

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of
ENEL IBEROAMERICA, S.L.U.	ENDESA GENERACIÓN, SA	Contractual	Sale of finished goods and work in progress	19,803
ENEL, S.P.A.	ENDESA, SA	Contractual	Management contracts	2,545

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

D.5 Indicate the amount of related-party transactions.

0 (in thousands of euros)

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Directors shall adopt any measures necessary to prevent situations arising where their interests, whether on their own account or on the account of others, may come into conflict with those of the Company and with their duties towards the Company.

In particular, the duty to prevent situations of conflicts of interests obliges directors to refrain from:

- Carrying out transactions with the Company, except when they are ordinary transactions, performed in standard conditions for customers and of scarce relevance, with these understood as those for which information is not necessary to express a true image of the assets, the financial position and results of the Company.
- Using the Company name or relying on their status as Directors of the Company to unduly influence private transactions.
- Making use of Company assets, including confidential information belonging to the Company, for private purposes.
- Taking advantage of the Company's business opportunities.
- Obtaining advantages or remuneration from third parties other than the Company and its group in association with the performance of their functions, with the exception of mere courtesies.
- Carrying out activities on their behalf or on behalf of others that are effectively competition, whether real or potential, to the Company or that, in any other way, place them in permanent conflict with the interests of the Company.

Directors must disclose to the Board of Directors, via the Board Secretary, any direct or indirect conflict of interests between them and the Company. Directors shall refrain from taking part in deliberating and voting on any agreements or decisions where they or any related parties have a direct or indirect conflict of interests. This abstention obligation shall exclude agreements or decisions that affect their status as directors, such as their appointment or revocation for posts on the Board of Directors, its Committees and the Executive Committee, or others of similar standing.

In any event, information on any conflicts of interest affecting the Directors of the Company shall be reported according to the law in force.

Directors must perform their role with the loyalty of a faithful representative, in good faith and in the Company's best interest, interpreted with full independence, and they shall strive at all times to defend and protect the interests of all shareholders, from whom their authority originates and to whom they are accountable.

Directors, by virtue of their posts, are obliged in particular to:

- Refrain from exercising their powers for purposes other than those for which they were granted.
- Carry out their functions on the principle of personal responsibility with freedom of criteria or judgment and independence, irrespective of instructions from or relationships with third parties.
- Fulfil the general principles and criteria of conduct contained in the Company's Code of Ethics.

Endesa also has a Protocol for action to be taken concerning conflicts of interests, exclusive dedication and commercial competition, the purpose of which is to regulate the actions of Endesa employees with regard to exclusive dedication and commercial competition, and establish the rules to be adhered to in connection with conduct or situations that entail a potential conflict between the interests of the Company and the personal direct or indirect interests of any of its employees.

D.7 Is more than one group company listed in Spain?

Yes ☐ No ☒

Identify the listed subsidiaries in Spain. **Listed subsidiaries**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

Define any business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the Risk Management System in place at the company, including tax risks.

The Risk Management and Control Policy, approved by the Board and applicable to Endesa and all its subsidiaries, seeks to guide and direct strategic, organisational and operating activities to enable the Board of Directors to precisely identify an acceptable level of risk, to enable the managers of the various business lines to maximise the Company's profitability, maintain or increase its assets equity and the certainty of achievement of this above certain levels, preventing any uncertain and future events from undermining the profitability targets set.

The Risk Management and Control Policy defines ENDESA's Risk Control System as an interlaced system of rules, processes, controls and information systems, in which global risk is defined as the risk arising from consolidation of all risks to which it is exposed, taking into account the mitigating effects among the various risk exposures and risk categories, which enables the risk exposure of the group's business areas and units to be consolidated and measured, and the corresponding management information to be drawn up for decision-making on risk and appropriate use of capital.

The Risk Management and Control Process is based on the ongoing study of the risk profile, applying the current best practices in the energy sector or benchmark risk management practices, criteria for standardising measurements and the separation of risk managers and risk controllers. It is also based on ensuring that the risk undertaken is proportional to the resources required to operate the businesses, in constant adherence to a proper balance between the risk undertaken and the targets set by the Board.

The integral risk management process consists of identifying, measuring, analysing and monitoring risks, and following them up and controlling them over time, on the basis of the following actions:

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

This process sets out to obtain a comprehensive view of risk, geared towards assessing and prioritising risks. It covers the main financial and non-financial risks to which the company is exposed, both endogenous (through internal factors) and exogenous (through external factors), and is set out on an annual map containing the main risks identified and establishing regular reviews.

In addition to the above, the Endesa Board has also approved a Tax Risk Management and Control Policy to guide and direct strategic, organisational and operating activities to enable the managers of the Tax Matters Unit and various areas of the organisation the functions of which affect the tax paid by the company, and to achieve the objectives of the company's Tax Strategy with respect to the management and control of tax risks.

E.2 Identify the bodies responsible for preparing and implementing the Risk Management System.

Board of Directors. The Board is responsible for determining the Risk Management and Control Policy, including tax issues, supervision of the internal information and control systems and establishment of the company's acceptable level of risks at all times.

Audit and Compliance Committee. Its functions include the following:

1. Report to the Board, in order to secure its approval, on the Risk Management and Control Policy, including tax risks, and amendments to the policy, ensuring that at least the following aspects are identified:
a) The different types of financial and non-financial risks (operational, technological, legal, social, environmental, political and reputational risk) faced by the Company, including contingent liabilities and other off-balance-sheet risks as financial or economic risks.
b) The determination of the level of risk the Company deems acceptable.
c) Measures in place to mitigate the impact of the risks identified, should they occur.
d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities or off-balance-sheet risks.
2. Supervise the effectiveness of internal control and of the risk management system. The Audit and Compliance Committee shall be responsible for direct supervision of Endesa's Risk Committee, the internal body responsible for the Risk Management and Control Policy. A regular assessment shall be conducted of the performance of the internal Risk Management and Control function.
3. Carry out an annual assessment of all issues concerning the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

Risk Committee. This is the body responsible for implementation of the Risk Management and Control Policy, based on the internal procedures of the different lines of business and corporate areas. The following functions are assigned to it:
- Regularly provide the Board of Directors with an integrated view of current and foreseeable risk exposure.
- Ensure that Senior Management is involved in strategic risk management and control decisions.
- Guarantee coordination between the risk management units and those units responsible for their control, and compliance with the risk management and control policy and its associated internal procedures.
- Guarantee the proper functioning of risk control and management systems and, in particular, ensure that they identify, manage, and adequately quantify all major risks.
- Actively participate in the preparation of risk strategy and in major decisions about how to manage it.
- Ensure that the risk control and management systems adequately mitigate risks within the Risk Management and Control Policy framework.

Risk Control has the following functions delegated to it by the Risk Committee with respect to management and control of company risks:
- Define procedures and standards to coordinate the company's comprehensive risk control system.
- Draw up documentation to report to the Risk Committee and to any decision-making body on the company's risk exposure and any relevant fact concerning risk management and control.

Internal Control. It is responsible for implementing, updating and monitoring Internal Control over Financial Reporting (ICFR), establishing the procedures and controls deemed necessary to guarantee the quality of the financial information disclosed by Endesa.

Business lines and corporate areas. All areas of the company, including the tax area, are directly involved in risk management. The main responsibilities are as follows:
- Consider risk management as an integral part of day-to-day business, implementing the risk management framework consistently and effectively.
- Ensure that risk policies, risk management processes and internal controls associated with the line of business are being implemented effectively in accordance with the principles and limits established.
- Fully identify risks affecting business development and risks that arise during activities.
- Ensure compliance with the segregation of functions established in the risk management framework, in such a way as to guarantee effective controls and implementation of the controls without creating any unnecessary inefficiency.

Internal Audit. ENDESA's regulatory system, internal controls and supervision by the Audit Division guarantee controls to minimise operational risk which can generate economic, social, environmental and reputational impacts, in addition to legal risks and the risk of fraud. The Internal Audit function seeks to:
- Systematically and independently assess the effectiveness and adequacy of the Company's internal control system.
- Assist the various areas of the Company in supervising risks and identifying courses of action to mitigate them. The head of the Audit function regularly reports to Senior Management and to the Audit and Compliance Committee on the results of its work, assists the Committee with internal control, and properly supervises compliance programmes.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

The risk factors faced by ENDESA when carrying out its activities, as set out in the Risk Management and Control Policy, are as follows:

- Financial risks or market risks: risk of fluctuations in prices and other market variables leading to changes in enterprise value or margin. These risks are classified as:
  - Interest rate risk
  - Currency risk
  - Commodity risk
  - Liquidity and funding risk
  - Counterparty risk
- Business risk: this type of risk includes:
  - Operational risk
  - Industrial risk
  - Environmental risk
  - Legal and tax risk
  - Reputational risk
  - Strategic and regulatory risk

E.4 State whether the company has a risk tolerance level, including tax risk.

The businesses, corporate areas, and companies that form part of the Business Group establish the risk management controls required to ensure that transactions are performed in markets in accordance with ENDESA's policies, principles and procedures and, in any case, with due adherence to the following limits and precepts:

- Alignment of the risk levels with the objectives set by the Board of Directors.
- Optimisation of risk management and control on a consolidated basis, giving this priority rather than individual management of each individual risk.
- Continuous evaluation of hedging, transfer and mitigation mechanisms to guarantee its suitability and the adoption of best market practices.
- Continuous monitoring of the prevailing legislation, standards and regulations, doctrine and case-law, including those relating to tax, to ensure that transactions are performed in accordance with the rules governing the business.
- Adherence to and compliance with internal regulations, focusing in particular on Corporate Governance, the Code of Ethics, the Corruption Zero-Tolerance Plan, and the General Principles for the Prevention of Criminal Risks.
- The duty to protect the health and safety of those working in and for ENDESA.
- Commitment to sustainable development, efficiency and respect for the environment, identifying, assessing and managing the environmental impacts of ENDESA's activities.
- Responsible optimisation of the use of resources available in order to provide shareholders with a return as part of corporate relations based on the principles of loyalty and transparency.
- ENDESA's financial policies are aimed at active management of the financial risks associated with its ordinary business. In general, speculative positions are restricted.
- With regard to tax, the level of risk tolerance is set out in the company's Tax Strategy as determined by the Board and set out in the Tax Risk Control and Management Policy. The company undertakes to comply with prevailing tax regulations, adopting at all times a reasonable interpretation of these regulations and attempting to prevent, on the basis of this interpretation, inefficiency and unwarranted tax outlays for the company.

The following tasks are carried out to control risks:

- Quantitative references are defined to reflect ENDESA's strategy and its risk predisposition (limits), and these are duly monitored.
- Identification and consideration of possible breaches of the limits set.
- Establishment of courses of action, processes and information flows needed to allow for periodic review of limits in order to take advantage of specific opportunities arising from each activity.
- If risk limits are exceeded, the appropriate corrective measures are proposed, using hedging, transfer (insurance)and mitigation mechanisms for manageable risk and, in the case of non-manageable risk, the contingency plans are assessed or the activity is halted.

E.5 Identify any risks, including tax risks, which occurred during the year.

The risks that occurred during the year were inherent to the activity carried out, such as constant exposure to regulatory risks, interest rate risk, currency risk, fuel volatility risk, credit or counterparty risk.
These risks remained within normal limits in proportion to the Company's activities, and the control systems established functioned properly.
External risks included BREXIT, the impact of which on the company is considered to be limited.

E.6 Explain the response and supervision plans for the main risks to which the company is exposed.

ENDESA has a risk identification system for regular assessment of the nature and magnitude of the risks faced by the organisation. The development of an integrated risk control and management process and, as part of this, a structured and standardised reporting system, has helped synergies to be obtained for the consolidation and comprehensive processing of risks and has allowed key indicators to be developed to detect potential risks and issue early warnings. The comprehensive risk management process implemented at the company establishes the following, inter alia:

- Achievement of a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility, through diversification of types of financial assets and liabilities and modifications to the risk exposure profile by arranging derivatives.
- Arrangement of financial currency swaps and exchange insurance in order to mitigate currency risk. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies.
- Exposure to fluctuations in commodity prices is managed in the long term by diversifying contracts, managing the procurements portfolio by reference to indexes with a similar or comparable trend to that of the ultimate electricity prices (generation) or selling prices (retail) and through regular renegotiations of contractual clauses aimed at maintaining the economic balance of procurements.
- In the short term, liquidity risk is mitigated by ENDESA by maintaining a sufficient level of resources available unconditionally, including cash and short-term deposits, drawable lines of credit and a portfolio of highly liquid assets.
- ENDESA’s liquidity policy consists of arranging committed long-term credit facilities with both banks and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of the debt and capital markets.
- In addition, ENDESA develops the centralised cash function, drawing up cash forecasts to ensure it has sufficient cash to meet operational needs, maintaining sufficient levels of availability on its undrawn loans.
- ENDESA closely monitors its credit risk, taking additional precautions which include the following, among others: Risk analysis, assessment and monitoring of the creditworthiness of counterparties; Establishing contractual clauses, requesting collateral, requesting guarantees or taking out insurance. - Exhaustive review of the level of counterparty exposure; Diversification of counterparties.
- There is a single environmental policy defined throughout ENDESA.
- Prevention and protection strategies are in place to mitigate the risk of breakdowns or accidents which temporarily interrupt operation of plants.
- In order to transfer certain risks, mitigating the effects if they occur, ENDESA attempts to obtain adequate insurance cover in relation to the main risks associated with its business - including, inter alia, damage to the Company itself, general civil liability, environmental and nuclear power plant liability.

ENDESA manages most of its tax obligations and those of the companies it controls in a centralised fashion. To this end it has implemented procedures for each of the taxes it manages. Besides describing the processes for proper payment of taxes and performing quality control
regarding taxes paid, these processes include the appointment of a person responsible for the process and a person responsible for supervising it.

- Due to different interpretations of applicable regulations, ENDESA relies on experts in the area to analyse them and it also relies on prestigious legal and tax advisors who interpret these regulations, allowing ENDESA to adapt its actions to legal requirements.
- In order to have thorough, reliable knowledge of the status of audience opinion, ENDESA has social research tools used regularly and exclusively for the Company, and also information from studies of the same nature that are available to the public.
- With respect to supervision of tax risks and the respective response plans, the unit managing tax issues regularly identifies the risks associated with the tax function, characterises them in accordance with the risk factor that produces them and its typology, and performs an economic assessment of them. They are properly managed subsequently, to eliminate or reduce the risk, which is undertaken only when it is considered there are solid arguments to defend the posture adopted. Risks are reported to the Risk Control Unit on a periodic basis, to be added to the company's Risk Map.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity’s control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

Board of Directors

The Board of Directors of ENDESA is ultimately responsible for the existence and regular updating of an adequate and effective ICFR system. As stipulated in the Board of Directors' Regulations, this duty has been delegated to the Audit and Compliance Committee. The Board has the non-delegatable power to supervise internal information and control systems along with the Audit and Compliance Committee, the functions of which, pursuant to Spain's Corporate Enterprises Act, include supervision of the effectiveness of the company's internal control system.

Audit and Compliance Committee

The Regulations of ENDESA's Audit and Compliance Committee stipulate that the main task of the Committee is to promote good corporate governance and ensure the transparency of all ENDESA's actions in economic and financial areas and in relation to external audit, compliance and internal audit.

The committee is entrusted with supervising the preparation and presentation of regulatory financial information and monitoring the efficacy of ENDESA's ICFR and risk management systems, as well as discussing with the auditors or audit firms any significant weaknesses detected in the internal control system during the course of the audit work.
The committee also supervises the internal audit services, ensuring the independence and effectiveness of the Internal Audit function, proposing the selection, appointment, re-election and removal of the head of internal audit, receiving regular reports on activities, and verifying that Senior Management is acting on the findings and recommendations of its reports.

Audit and Compliance Committee members are appointed in the light of their knowledge and experience of accounting, audit or risk management.

Transparency Committee
In 2004, ENDESA set up a Transparency Committee chaired by the Chief Executive Officer, composed of its senior executives including all members of the Executive Management Committee and other members of ENDESA management directly involved in the preparation, certification and disclosure of financial information.

This Committee's main purpose is to ensure compliance with and the correct application of general financial reporting principles (confidentiality, transparency, consistency and responsibility) by evaluating the events, transactions, reports and other matters of relevance disclosed and determining the manner and deadlines for making these disclosures.

The duties of the Transparency Committee also include assessing the findings submitted to it by ENDESA's Department of Administration, Finance and Control, based on the report prepared by the Internal Control unit on compliance with and effectiveness of the ICFR system and the internal controls and procedures concerning market disclosures, taking corrective and/or preventive action and reporting to the Board's Audit and Compliance Committee in this regard.

Department of Administration, Finance and Control
Acting as backup to the Transparency Committee, ENDESA's Department of Administration, Finance and Control performs the following ICFR-related duties within the framework of the Enel Group's policies and procedures:

- Proposing financial reporting management policies to the Transparency Committee for approval.
- Evaluating and reporting to the Transparency Committee on the effectiveness and operativity of controls and, where applicable, possible breaches of the internal control policies approved.

Internal Control Unit

ENDESA's Department of Administration, Finance and Control has an Internal Control Unit, the functions of which are as follows:

- Communicating approval of ICFR policies and procedures to ENDESA's various subsidiaries and business units.
- Maintaining, updating and furnishing the company's ICFR model and the documentation associated with processes and controls.
- Defining the flows for certifying the evaluation of the effectiveness of the controls and procedures defined in the ICFR model.
- Overseeing compliance with internal control over financial reporting and the internal disclosure controls and procedures, presenting periodic reports on its conclusions with respect to the system's effectiveness.

All matters relating to internal control over financial reporting and the disclosure of financial information are regulated in the Nº 5 organisational procedure "Internal Control over Financial Reporting", the purpose of which is to establish the operating principles and responsible bodies for the establishment and maintenance of internal controls over financial reporting and internal financial information disclosure controls and procedures in order to ensure their reliability and to guarantee that reports, events, transactions and other material developments are disclosed in an adequate form and timeframe. The ICFR system is evaluated and certified in full every six months.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.

Design of the organisational structure
The Board of Directors, through the CEO and the Appointments and Remuneration Committee (one of the Board's advisory committees), is responsible for the design and review of the organisational structure and for defining lines of responsibility and authority.

The CEO and the Appointments and Remuneration Committee establish the distribution of tasks and functions, ensuring adequate segregation of duties and coordination mechanisms among the various departments so that everything works as it should.

The Organisational and Human Resources Unit is tasked with designing, planning and disclosing the change management framework in the case of major organisational transformations, planning change programmes and the related resources and processes. It is also responsible for defining the guidelines for the Group's organisational structure and for relevant organisational changes. It also defines and implements the global job posts systems, evaluating key managerial functions and executive posts.
The Nº 26 corporate policy "Organisational Guidelines" defines and establishes criteria to identify, develop and implement organisational guidelines, and appraises and evaluates positions.

The various organisational guidelines are posted on ENDESA's Intranet and are available to all ENDESA employees.

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

Code of conduct - regulatory framework concerning ethics and compliance
ENDESA has the following documents in connection with internal regulations concerning ethics and prevention of crimes:

Code of Ethics

ENDESA has a Board-endorsed Code of Ethics which itemises the ethical commitments and duties to which the professionals working for ENDESA and its subsidiaries, be they Directors or staff, no matter their positions, are bound in the course of managing these companies' business and corporate activities.
The Code of Ethics comprises:
- The general principles governing relations with stakeholders that define ENDESA's benchmark business values.
- The standards of conduct for dealing with all groups of stakeholders, enshrining the specific guidelines and rules which ENDESA professionals must adhere to in order to uphold the general principles and avoid unethical behaviour.
- The Implementation Mechanisms, describing the organisational structure of the Code of Ethics environment, responsible for ensuring that all employees are aware of, understand and comply with the Code.

The principles and provisions of ENDESA's Code of Ethics must be respected and complied with by the members of the Board of Directors, the Audit and Compliance Committee and other governing bodies of ENDESA and its subsidiaries, as well as these entities' executives, employees and any other professionals related to ENDESA via contractual relationships of any type, including those working for or with them on an occasional or temporary basis.
The Code's general principles include that of "Information transparency and integrity", which stipulates that "ENDESA's professionals must provide complete, transparent, comprehensible and accurate information such that when entering a relationship with the Company the implicated parties can take independent decisions that are informed with respect to the interests at stake, the alternatives and the relevant ramifications".

Zero Tolerance Plan Against Corruption

The Board-approved Zero Tolerance Plan Against Corruption requires all ENDESA employees to be honest, transparent and fair in the performance of their work. The same commitments are expected of its other stakeholders, i.e. people, groups and institutions that help ENDESA meet its objectives or that are involved in the activities it performs in order to achieve its goals.
In compliance with Principle 10 of the Global Compact, of which ENDESA is a signatory, "Businesses should work against corruption in all its forms, including extortion and bribery", ENDESA expressly rejects all forms of corruption, direct and indirect, and to this end it has an anti-corruption programme in place.

Criminal Risk Prevention Model

ENDESA's Criminal Risk Prevention Model, in place since 1 January 2012, is a control system for the purpose of preventing or significantly reducing the risk of criminal offences within the company, complying with the Spanish Criminal Code on the criminal liability of legal persons.

According to current legislation, the adoption of an appropriate and efficient prevention model, the operation and supervision of which have been entrusted to a Company body with independent powers of initiative and control, could exempt the Company from criminal liability with regard to a criminal offence.

The following protocols, which establish general criteria for action in different areas, form part of Endesa's crime prevention model:

- Protocol for action to be taken concerning conflicts of interests. Exclusive dedication and commercial competition.
- Protocol for accepting and offering presents, gifts and favours.
- Protocol for action to be taken concerning public servants and the authorities.

- A whistle-blowing channel to report to the audit committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

Whistle-blowing channel

ENDESA has had an Ethics Channel in place since 2005. This is accessible via its corporate website and intranet to all employees, so that all stakeholders can report, securely and anonymously, any irregular, unethical or illegal conduct which has, in their opinion, occurred in the course of ENDESA's activities.

The procedure for using this channel ensures confidentiality, as all complaints and communications are managed by an independent external supplier.

In addition to this Channel, a number of other channels are available for submitting complaints. These are all routed to Internal Audit, in accordance with ENDESA's internal procedures.

Internal Audit is responsible for ensuring that all complaints received are processed correctly, considering them and acting independently of other company units. It has access to all company documents needed for the exercise of its functions. It also monitors the implementation of the recommendations included in its audit reports. Internal Audit reports to the Board of Directors through the Audit and Compliance Committee, which centralises and channels significant complaints to the Board.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Training programmes

The Business Organisation and Human Resources Department works with the Department of Administration, Finance and Control to prepare the training schedule for all staff involved in preparing ENDESA's financial statements. This Plan includes ongoing updates on business trends and regulatory developments affecting the activities performed by the various ENDESA subsidiaries, specific IFRS skills courses and training regarding ICFR standards and developments.

In 2016, ENDESA's Department of Administration, Finance and Control received 18,169.25 training hours, of which 16.83% were given over to the acquisition, refreshment and recycling of financial skills and knowledge, addressing matters such as accounting and audit standards, internal control, risk management and control and regulatory and business matters with which these professionals need to be familiar in order to properly draw up ENDESA's financial information. The rest of the training hours were earmarked for management skills, employment prevention and safety matters and IT skills. Of these hours, 38.22%7 were given over to languages, and 18.59% to leadership and management skills.

In addition, whenever necessary, ENDESA provides specific training courses on financial reporting and control matters to staff outside the Department of Administration, Finance and Control who are directly or indirectly involved in supplying information used in the financial reporting process.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

ENDESA has operated an official ICFR system since 2005.

- Whether the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and with what frequency.

The financial reporting risk identification and maintenance process covers the following financial information objectives:

- Existence and occurrence.
- Completeness.
- Valuation.
- Presentation, disclosure and comparability.
- Rights and obligations.

ENDESA's Internal Control Unit updates the ICFR's map of relevant processes to include any quantitative or qualitative changes affecting the internal control model.

The evaluation (in terms of probability and impact) of both inherent and residual risks is updated every time there is a change in processes or whenever a new company is added to the scope. This evaluation can result in the identification of new risks, which are mitigated by designing new controls or updating existing controls.

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special-purpose vehicles, holding companies etc.

Defining the scope of consolidation
ENDESA keeps a corporate register, which is permanently updated, of information on all its shareholdings, whether direct or indirect, including all entities over which ENDESA has the power to exercise control, regardless of the legal structure giving rise to such control.

This register therefore also includes holding companies and special-purpose vehicles.
The management and updating of this corporate register is governed by a procedure regulated by Corporate Regulation N.035 "ENDESA Corporate Records Management".

ENDESA's scope of consolidation is determined on a monthly basis by the Department of Administration, Finance and Control on the basis of the information available in the Corporate Records and in accordance with the criteria stipulated by International Financial Reporting Standards (hereinafter "IFRS") and other local accounting regulations. All ENDESA companies are informed of any changes to the scope of consolidation.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

The financial reporting risk identification and maintenance process also factors in the impact that the other risk factors pinpointed on the risk map may have on the financial statements, primarily operational, regulatory, legal, environmental, financial and reputational risks.

- Which of the company's governing bodies is responsible for overseeing the process.

The Audit and Compliance Committee is tasked with overseeing the effectiveness of ENDESA's ICFR system and reporting on this to the Board. To this end it may submit recommendations or proposals to the Board of Directors and the corresponding deadline for their follow-up.

F.3 Control activities

Indicate the existence of at least the following components, describing their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Procedures for reviewing and authorising the financial information and description of ICFR
ENDESA discloses financial information to the market quarterly. This information is prepared by the Management Area, which performs certain controls as part of the closing of accounts procedure in order to ensure the reliability of the information disclosed. In addition, the Planning and Control Area analyses and monitors the information produced.

ENDESA's General Manager of the Department of Administration, Finance and Control analyses the reports received, provisionally certifying the aforementioned financial information for submission to the Transparency Committee.
The Transparency Committee and the representatives designated by the Transparency Committee conduct a six-monthly and quarterly analysis, respectively, of the information received from the Department of Administration, Finance and Control. When the information has been approved, it is sent to the Audit and Compliance Committee.

The Audit and Compliance Committee oversees the financial information presented to it. At reporting dates that coincide with the end of a six-month financial period, and those deemed particularly important by the Audit and Compliance Committee, the Committee also receives information from ENDESA's external auditors on the results of the work it has carried out.
Finally, the Audit and Compliance Committee presents its conclusions on the financial information to the Board of Directors. When the Board has approved the information for issue, it is disclosed to the market.

Model for Internal Control over Financial Reporting
ENDESA has an ICFR model in line with the model established for all Enel Group companies, based on the COSO Model (Committee of Sponsoring Organisations of the Treadway Commission).

Firstly, there are Management Controls or "Entity Level Controls" (hereinafter "Management Controls" or "ELC") and "Company Level Controls" (hereinafter "CLC"). These structural elements are interrelated across all divisions/companies.

There are also specific ELC controls to mitigate the risk of Segregation of Duties (hereinafter "SOD-specific ELC") and access controls (hereinafter "ELC-ACCESS") that mitigate the risk of unauthorised access to the software applications or network folders involved in the processes.

Pursuant to the ENEL Group model, ENDESA has identified the following business cycles at the process level common to all its subsidiaries:

1) Fixed assets
2) Accounting close
3) Capital investments
4) Finance
5) Inventory
6) Personnel expenses
7) Procurement cycle
8) Revenue cycle
9) Taxes other than income tax

The ICFR unit manages and continuously updates documentation on each process, following the methodology established to this end. All organisational changes imply the need to review the control model in order to assess their impact and make any changes required to ensure operational continuity. The primary components of each process are:

- Risks.
- Control activities. Also called "Process Level Controls" (hereinafter "PLC"), except for the specific case of IT systems, which are known as IT General Controls (hereinafter "ITGCs"). The control activities ensure that ENDESA's control targets are met in the ordinary course of business and in respect of all consolidated financial statement headings.

The internal control model applied in 2016 entails average coverage of 97.63% of the main consolidated financial statement headings (total assets, debt, earnings and pre-tax results).

All information relating to the internal control model is documented in the SAP-GRC PROCESS CONTROL computer tool (hereinafter, SAP-GRC), coordinated by the ICFR unit. The persons responsible for control activity (the Control Owners) are appointed by the process managers, and are responsible for carrying out the six-monthly self-assessments.

The Internal Control Unit gives the managers of processes and controls the necessary backup, and ensures the assessment process is carried out properly.
The ICFR assessment process includes the following:

- Certification of the internal control system, in the following phases:
  - Self-Assessment of Control Activities (PLC)
  - Self-Assessment of Management Controls (ELC/CLC)
  - Signature by the heads of the various Organisational Units involved, moving up the hierarchical structure of the company until the Chief Executive Officer has signed.

All of these phases are monitored and supported on a permanent basis by the Internal Control Unit.

- Verification by the external consultant on the controls of the SCIIF of ENDESA.

The results of certification of the internal control system and the results obtained from verifications by the external consultant are added to the ICFR report.

Any weaknesses detected are classified in three categories as follows, depending on their potential effect on financial statements:

- Control weaknesses (insignificant)
- Significant weaknesses
- Material weaknesses

All weaknesses detected in the ICFR system lead to a specific action plan to rectify each of them. The Internal Control Unit reports to the Transparency Committee and the Audit and Compliance Committee on the weaknesses detected in the ICFR until they have finally been resolved.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Global ICT area is responsible for the IT and telecommunications systems for all ENDESA's businesses and geographic markets.
Global ICT functions include the definition, application and monitoring of security standards, development and operation of applications and infrastructures, for traditional models and also for the new cloud computing paradigm. All IT activities are carried out by applying the internal control model to information technology.

ENDESA's internal control model and, in particular, the Global ICT model, encompass the IT processes, which in turn include the IT environment, architecture and infrastructure, and the applications, which affect transactions with a direct impact on the entity's key business processes and, ultimately, its financial information and reporting processes. These controls can be implemented by means of automated programming or using manual procedures. ENDESA has an internal control model for all key IT systems used in preparing financial information, which is designed to guarantee the overall quality and reliability of the financial information produced at each close and, by extension, the information disclosed to the market.

The IT internal control model is structured into four areas of governance:

- Planning and Organisation
- Solution & Maintenance
- Service Delivery and Support
- Performance Monitoring

These areas are in turn divided into processes and sub-processes with the necessary fine-tuning to guarantee an appropriate level of control of the IT system and ensure the integrity, availability and confidentiality of each company's economic and financial information.

ENDESA's internal IT system control model contains the control activities needed to cover the risks intrinsic to the following IT system management aspects, and financial information processes and systems:

- IT environment
- Management of application changes
- IT operations and management
- Physical and logical security
- Telecommunications

To guarantee the security of its information, in 2007 ENDESA set up its Information Security function, now part of the Resources Department's Security Division, in response to requirements dictated by legislation, the technological environment and the market itself. This is based on the regulatory framework established for information security, the guiding principles of which are included in the Security Policy (Policy 40), the Information Protection and Classification Policy (Policy 33) and the IT Systems Access Control Policy (Policy 111).

The Security Policy establishes the organisational framework for managing the security risks to which the company's human resources and tangible and intangible assets are exposed, determining the implementation of technical and organisational measures required to control and manage them.

The objectives of this are:

- Protection of employees against risks of an intentional nature or those arising from natural disasters.
- The observance of current safety standards, laws and regulations.
- Protection of IT applications and infrastructure, industrial automation systems and control systems.
- Protection of tangible resources (work places, the company's infrastructure systems) from threats that could affect their value or compromise their functional capacity.
- Ongoing safeguarding of information and data from unauthorised alteration (integrity), unauthorised access (confidentiality) and accidental or intentional damage that might jeopardise their use by authorised users (availability); ensuring that the person responsible for the information or provision of a service (and their counterparty) are who they say they are (authentication) and that it is always possible to know who carried out any action affecting the information and when they carried it out (auditability).

There is also an IT Systems Access Control Policy (Policy 111), which sets out guidelines and establishes the control model for the management of access to IT systems and applications, in order to reduce the risk of fraud or involuntary access to Group information and safeguard its confidentiality, accuracy and availability.

In 2007 Endesa set up a Decision Rights Management function (currently known as Segregation of Duties, part of the ICFR Unit) to guarantee the identification, management and control of functional incompatibilities and ensure that no single person can dominate a critical process.

In relation to the preceding paragraphs, the Segregation of Duties controls (SOD-specific ELC) and logical access controls (ELC-ACCESS) form part of the ICFR, and are assessed and verified in the same way as the other controls forming part of the model.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

When ENDESA outsources an activity involving the issue of financial information, it requires the supplier to provide a guarantee attesting to the internal control measures in place for the activities performed. When processes are outsourced, service providers must obtain an ISAE 3402 "International Standard on Assurance Engagements" report. When IT infrastructure services are outsourced (Data Centre and Hardware), the contract stipulates that an SOC1/SSAE16 report must be obtained. This report allows ENDESA to check whether or not the service provider's control objectives and activities have functioned during the time horizon concerned. In other cases, such as IT platform or software delegation services, ENDESA obtains information from an independent expert to certify that no aspects of the services could entail any material shortcomings with respect to the process of generating ENDESA's consolidated financial statements.

When ENDESA engages the services of an independent expert, it first assures itself of their legal and technical competence and skills. ENDESA has control activities in place in respect of independent expert reports, as well as staff with the ability to validate the reasonableness of the report findings.

There is also an internal procedure for hiring external advisors, which stipulates a series of clearance levels depending on the size of the engagement, which may even call for CEO approval. The results or reports of outsourced accounting, tax or legal issues are supervised by the Department of Administration, Finance and Control and the Legal Advice unit, and by any other departments if this is deemed necessary.

F.4 Information and communication

Indicate the existence of at least the following components, describing their main characteristics.

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Responsibility for application of ENDESA's accounting policies for all its geographic markets is centralised in ENDESA's Department of Administration, Finance and Control.

ENDESA's Department of Administration, Finance and Control has an Accounting Criteria and Reporting Unit which is specifically responsible for analysing application of the International Financial Reporting Standards (hereinafter, "IFRS") and the Spanish Chart of Accounts ("PGC") to ENDESA Group companies. To carry out these functions, the Accounting Criteria and Reporting Unit is responsible for:

- Defining ENDESA's accounting policies.
- Analysing executed and planned one-off transactions to determine the appropriate accounting treatment in line with ENDESA's accounting policies.
- Monitoring the new standards being worked on by the International Accounting Standards Board (hereinafter, "IASB") and Spain's Instituto de Contabilidad y Auditoría de Cuentas (hereinafter, "ICAC"), any new standards approved by these bodies and the EU process to endorse IASB regulations, assessing the impact of their implementation on all Group financial statements.
- Resolving any query made by any subsidiary regarding application of ENDESA's accounting policies.

The Accounting Criteria and Reporting Unit keeps all those with financial reporting responsibilities at the various levels within ENDESA abreast of amendments to accounting standards, settling any doubts they may have and gathering the required information from subsidiaries to ensure consistent application of ENDESA's accounting policies and to enable it to quantify the impact of application of new or amended accounting standards.

If application of accounting standards is deemed particularly complex, ENDESA's Department of Administration, Finance and Control informs the external auditors of the outcome of its internal analysis, asking them to provide an opinion on the conclusions reached.

ENDESA's accounting policies are based on IFRS and are documented in the "ENDESA Accounting Manual". This document is updated regularly and is distributed to the parties responsible for preparing the financial statements of all ENDESA companies.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

ENDESA has IT tools (catalogued internally for ICFR purposes) to cover all reporting requirements associated with its individual financial statements, and to facilitate the consolidation process and subsequent analysis. These tools centralise into a single system and under a single audit plan all the information corresponding to the individual financial statements of all ENDESA subsidiaries, including the notes or additional disclosures needed to prepare the consolidated financial statements.

Every year ENDESA engages an independent expert to certify that the tools do not present any material shortcomings with respect to the process of generating ENDESA's consolidated financial statements.

The data is uploaded into this consolidation system by the Economic Information System (transactional), which is also centralised and in place in virtually all ENDESA companies.

In turn, the ICFR model is supported by an IT system which is managed on a centralised basis and produces all the information needed to draw conclusions with respect to ICFR operativity.

F.5 Supervision of operation of the system

Indicate the existence of at least the following components, describing their main characteristics.

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

Every six months, the Department of Administration, Finance and Control's Internal Control Unit monitors the process through which the design and functioning of the ICFR system is evaluated and certified. It duly reports its findings to the Transparency Committee, which is the body responsible for ensuring adequate internal control of the information disclosed to the market.

To this end, the Internal Control Unit is supplied with the evaluation of the entity/company, process and IT control (ELCs/CLCs, PLCs and ITGCs, respectively) in order to verify:

- whether any changes have been made to the process, whether the identification of control Activities has been updated and whether the new Control Activities sufficiently cover Process Control Risks.
- whether all weaknesses in the control system design or functioning have been detected. A weakness refers to an incident which implies that the control system may not be able to guarantee with reasonable assurance the ability to acquire, prepare, summarise and disclose the Company's financial information.
- Whether the actual/potential impact of the aforementioned weaknesses has been evaluated and any required mitigating control activities put in place to guarantee the reliability of the financial information, notwithstanding the existence of these weaknesses.
- The existence of action plans for each weakness identified.

In the course of this process, any incidents of fraud, no matter how insignificant, involving managers or staff participating in processes with a financial reporting impact are identified and reported.

In addition, in the course of the year ENDESA monitors progress on the action plans put in place to address any shortcomings identified as stipulated above. These plans are defined by the parties responsible for each process, and are shared with the Internal Control Unit.

The Transparency Committee is informed of and certifies the evaluation of the model, the assessment of weaknesses and the status of related action plans twice a year.

Lastly, every six months, the Department of Administration, Finance and Control presents the Audit and Compliance Committee with its conclusions with respect to the evaluation of the ICFR system and progress on executing the action plans arising from earlier evaluations. The half-yearly evaluations carried out in 2016 revealed no material ICFR weaknesses. The following is a list of the number of controls evaluated and reviewed by the external consultant:

TOTAL CONTROLS 2,563 Evaluated and 302 Reviewed by external consultant
Controls: 2,343 Evaluated and 302 Reviewed by external consultant, of which:

- PLC controls: 2,128 Evaluated and 286 Reviewed by external consultant
- ELC/CLC controls: 206 Evaluated and 14 Reviewed by external consultant, of which SOD-specific ELC: 93 Evaluated and 14 Reviewed by external consultant, and rest ELC/CLC: 113 Evaluated.
- ELC- ACCESS controls: 9 Evaluated and 2 Reviewed by external consultant.
- General ITGC controls: 220 Evaluated.

In total, as a result of the self-assessment process and of the review carried out by the external consultant, 5 control weaknesses were identified which have no material effect on the quality of financial reporting, and 2 non-material weaknesses were detected concerning general ITGC controls.

In keeping with the foregoing, ENDESA's management believes that the ICFR model for the period 1 January to 31 December 2016 proved effective and that the controls and procedures in place to provide reasonable assurance that the information disclosed by the Group to the market is reliable and adequate are similarly effective.

ENDESA's Internal Audit unit, as part of its process audit function, also identifies the main shortcomings of the internal control system, and proposes the action plans necessary to resolve them, the parties responsible for their implementation and the timeframe to monitor the plans.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Board has a yearly meeting with the external auditor for information on the work undertaken and developments in the company's risk and accounting positions.

ENDESA's auditor has access to ENDESA Senior Management, and holds regular meetings in order to gather the information needed to perform its work and to notify any control weaknesses encountered in the course of its work.

The auditor also reports to the Audit and Compliance Committee twice a year on the conclusions drawn from its review of ENDESA's financial statements, additionally presenting any matter deemed relevant.

The internal audit function reports regularly to Senior Management and the Audit and Compliance Committee on any material internal control weaknesses identified in the review of the different processes during the year, and on the status of any action plans put in place to mitigate these weaknesses.

F.6 Other relevant information

All of ENDESA’s material ICFR disclosures are covered in the preceding sections of this report.

F.7 External auditor's report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

Pursuant to Article 61 bis (h) of Spain’s Securities Market Law 24/88 of 28 July and CNMV Circular 7/2015 of 22 December, ENDESA includes in its 2016 Annual Corporate Governance Report a description of the main features of its internal control and risk management systems with regard to statutory financial reporting, following the structure proposed in the aforementioned Circular.

In addition, ENDESA considered it appropriate to ask its external auditor to issue a report on its review of the information disclosed in this ICFR report in accordance with the pertinent professional conduct guide.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company’s compliance with corporate governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company’s behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant	X	Explain	

2. When a dominant and a subsidiary company are listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
   a) Changes taking place since the previous annual general meeting.
   c) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant ☒ Partially compliant ☐ Explain ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.
   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant ☒ Partially compliant ☐ Explain ☐

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.
   When a Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☒ Partially compliant ☐ Explain ☐

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:
   a) Report on auditor independence.
   b) Reviews of the operation of the audit committee and the appointments and remuneration committee.
   c) Audit committee report on third-party transactions.
   d) Corporate social responsibility policy.

Compliant ☒ Partially compliant ☐ Explain ☐

7. The company should broadcast its general meetings live on the corporate website.

Compliant ☒ Explain ☐

8. The Audit Committee should ensure that the Board of Directors seeks to present the annual accounts to the General Shareholders' Meeting, with no reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant [X] Partially compliant [ ] Explain [ ]

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.
Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant [X] Partially compliant [ ] Explain [ ]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
   a) Immediately circulate the supplementary items and new proposals.
   b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
   c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to presumptions or deductions about the direction of votes.
   d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant [X] Partially compliant [ ] Explain [ ]

13. In the interests of maximum effectiveness and participation, the board of directors should ideally have between five and fifteen members.

Compliant [X] Explain [ ]

14. The Board of Directors should approve a Director selection policy that:
    a) Is concrete and verifiable;
    b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
    c) Favours a diversity of knowledge, experience and gender.

    The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that shall ratify the appointment and re-election of each Director.

    The Director selection policy should pursue the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

    The appointments committee should run an annual check on compliance with the Director selection policy and set out its findings in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ]

15. Proprietary and independent directors should occupy an ample majority of seats on the board, while the number of executive directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant [X] Partially compliant [ ] Explain [ ]

16. The percentage of proprietary directors of the total of non-executive directors should not exceed the proportion between the capital of the company represented by these directors and the remainder of the company's capital.

    This criterion can be attenuated:
    a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
    b) In companies with a plurality of shareholders represented on the board with no links to each other.

Compliant [X] Explain [ ]

17. The number of independent directors should represent at least one half of all board members.

    However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent Directors should occupy, at least, a third of Board places.

Compliant [X] Explain [ ]

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional profile and background.
b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
c) An indication of the director's classification, stating, in the case of proprietary directors, the shareholder they represent or have links with.
d) The date of their first and subsequent appointments as a company director.
e) Shares held in the company and any options on them.

Compliant [X] Partially compliant [ ] Explain [ ]

19. The annual corporate governance report, following verification by the appointments committee, should explain the reasons for the appointment of proprietary directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a seat on the board from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

21. The Board of Directors should not propose the removal of any independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a report by the Appointments Committee. In particular, just cause shall be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed in the event of a takeover bid, merger or similar corporate operation which makes changes to the company's capital structure, when the changes to the board structure are propitiated by the proportionality criterion set out in Recommendation 16.

Compliant [X] Explain [ ]

22. Companies should establish rules obliging directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, with particular mention of any criminal charges brought against them and of any subsequent court proceedings.

If a director is indicted or tried for any of the crimes stipulated in corporate legislation, the board should examine the matter and, in view of the particular circumstances, decide whether or not the director should remain in his or her post. The board should also disclose all such determinations in a reasoned fashion in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ]

23. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.
When the board takes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the secretary of the board, director or otherwise.

Compliant [ ] Partially compliant [ ] Explain Not applicable [X]

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

25. The appointments committee should ensure that non-executive Directors have sufficient time available to discharge their responsibilities effectively.

Board regulations should establish rules about the number of directorships their board members can hold.

Compliant [X] Partially compliant [ ] Explain [ ]

26. The board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items to the agenda.

Compliant [X] Partially compliant [ ] Explain [ ]

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Compliant [ ] Partially compliant [X] Explain [ ]

There have not been precise instructions with the delegation in all cases, although most delegations contain precise instructions. A procedure has also been established whereby the Directors can delegate in order to try to prevent these situations.

28. When directors or the Secretary express concerns about a proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant ☒ Partially compliant ☐ Explain ☐

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant ☒ Explain ☐ Not applicable ☐

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion shall require the express prior consent, duly recorded in the minutes, of the majority of Directors present.

Compliant ☒ Partially compliant ☐ Explain ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant ☒ Partially compliant ☐ Explain ☐

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.

Compliant ☒ Partially compliant ☐ Explain ☐

34. When a lead independent Director has been appointed, the Bylaws or Board of Directors regulations should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Vice Chairmen give voice to the concerns of non-executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant [X] Explain [ ]

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.
b) The performance and membership of its committees.
c) The diversity of Board membership and competences.
d) The performance of the Chairman of the Board of Directors and the company's Chief Executive.
e) The performance and contribution of individual Directors, with particular attention to the Chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the appointments committee.

Every three years, the Board of Directors should engage an external consultant to aid in the evaluation process. This consultant's independence should be verified by the appointments committee.

Any business dealings that the consultant or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Compliant [X] Partially compliant [ ] Explain [ ]

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the executive committee’s minutes.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [X]

39. Audit committee members, particularly the Chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be independent directors.

Compliant [X] Partially compliant [ ] Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-Executive Chairman or the Chairman of the audit committee.

Compliant [X] Partially compliant [ ] Explain [ ]

41. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

   a) Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles.
   b) Monitoring the independence of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; approving the focus and work plans; ensuring that activities focus mainly on the company's major risks; receiving regular feedback on its activities; and verifying that senior management takes account of the findings and recommendations of its reports.
   c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.

2. With respect to the external auditor:

   a) There should be an investigation of the issues giving rise to the resignation of any external auditor.
   b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
   c) Ensure that the company notifies any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for these.
   d) Ensure that the external auditor has a yearly meeting with the Board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
   e) Ensure that the Company and the auditor respect rules in force on the provision of non-auditing services, limits on the concentration of the auditor's business and, in general, further rules established in order to ensure the independence of the auditors;

Compliant [X] Partially compliant [ ] Explain [ ]

43. The audit committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.

Compliant [X] Partially compliant [ ] Explain [ ]

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

45. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk (inter alia, operational, technological, legal, social, environmental, political and reputational) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
b) Establishment of the level of risk the company deems acceptable.
c) Measures in place to mitigate the impact of the risks identified, should they occur.
d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

Compliant [X] Partially compliant [ ] Explain [ ]

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

a) Ensure the correct working of the risk control and management systems and, in particular, that they identify, manage, and adequately quantify all major risks affecting the company.
b) Actively participate in the preparation of risk strategy and in the major decisions about how to manage it.
c) Ensure that the risk control and management systems adequately mitigate risks pursuant to the policy defined by the board.

Compliant [X] Partially compliant [ ] Explain [ ]

47. Appointees to the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Compliant [ ] Explain [X] Not applicable [ ]

The Endesa Board is composed of 11 members, 5 of whom are independent directors.

Following the recommendations of the Good Governance Code, the majority of the members of the Appointments and Remuneration Committee (comprising six members) are independent. Specifically, all members of the Board classified as independent (five) form part of this Committee.

The decision was taken not to divide the current Appointments and Remuneration Committee into two separate committees (an appointments committee and a remuneration committee) because the composition of both of them would be practically identical, with the five independent members forming part of each.

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

Any board member should be able to suggest directorship candidates to the appointments committee for its consideration.

Compliant	X	Partially compliant		Explain	

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose the standard conditions for senior officer employment contracts to the board.
b) Check compliance with the remuneration policy set by the company.
c) Periodically review the remuneration policy for Directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual remuneration is proportionate to the amounts paid to other Directors and senior officers in the company.
d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
e) Verify the information on Director and senior officers' pay contained in corporate documents, including the Annual Directors' Remuneration Statement.

Compliant	X	Partially compliant		Explain	

51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant	X	Partially compliant		Explain	

52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive Directors, with a majority of independents.
b) Committees should be chaired by an independent director.
c) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the tasks of each committee, discuss their proposals and reports, and report on their activity and the work carried out to the first board plenary following each meeting.
d) The committees should be able to engage external advisors, when they feel this is necessary for the discharge of their duties.
e) Minutes should be drawn up of proceedings, and a copy made available to all Board members.

Compliant	X	Partially compliant		Explain		Not applicable	

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
f) Monitor and evaluate the company's interaction with its stakeholder groups.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant [X] Partially compliant [ ] Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company shall voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
b) The corporate strategy with regard to sustainability, the environment and social issues.
c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
e) The mechanisms for supervising non-financial risk, ethics and business conduct.
f) Channels for stakeholder communication, participation and dialogue.
g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant [X] Partially compliant [ ] Explain [ ]

55. The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.

Compliant [X] Partially compliant [ ] Explain [ ]

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive Directors.

Compliant [X] Explain [ ]

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive Directors.

The company may consider the share-based remuneration of non-executive Directors provided they retain such shares until the end of their mandate. The above condition shall not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Compliant [X] Partially compliant [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector or other similar circumstances.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

61. A major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant	Partially compliant	Explain	Not applicable
[X]	[ ]	[ ]	[ ]

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition shall not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Compliant	Partially compliant	Explain	Not applicable
[ ]	[ ]	[ ]	[X]

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Compliant	Partially compliant	Explain	Not applicable
[X]	[ ]	[ ]	[ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant	Partially compliant	Explain	Not applicable
[ ]	[X]	[ ]	[ ]

The contractual conditions of current executive directors are prior to this recommendation. However, ENDESA's Directors' Remuneration Policy stipulates that when additions are made to the Senior Management of the Company or the Group, a maximum limit of two years of total and annual remuneration shall be set for payments due to termination of contract, which is applicable in any case, in the same terms, to contracts drawn up with executive directors.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the code and date of adoption.

- Note section A.3

Section A.3 states the number of Company shares held by Directors at 31 December 2016. However, it should be pointed out that Chairman Borja Prado purchased 445 ENDESA shares on 4 January 2017, and thus the balance at the date of this report is 16,405 shares.

- Note section C.1.16

The members of Senior Management listed in this section include two people (General Manager of Internal Audit and General Manager of Nuclear) who joined the voluntary contract suspension scheme and have since departed, and three people were added to the list (General Manager of Internal Audit, General Manager of Nuclear and General Manager of Renewable Energies).

- Note section E.4

On 30 January 2017, following a favourable report by the Audit and Compliance Committee, the Endesa Board of Directors approved the Company's Tax Risk Management and Control Policy, which regulates the principles guiding Endesa's Tax Function, defining the obligations and responsibilities within the organisation in this regard, with a description of the measures that must be in place to mitigate any tax risks identified, along with the principles to guide proper control of tax risks, including the performance of a number of ex ante preventive controls and also ex post controls to identify, measure, analyse, monitor and report these in keeping with the stipulations of Endesa's Risk Management and Control Policy and its Risk Map Operating Instructions.

CODE OF BEST PRACTICES

"At a meeting on 20 December 2010, the Board of Directors of ENDESA approved the adoption of the Code of Best Tax Practices. In compliance with the provisions thereof, ENDESA's Head of Tax Affairs reports regularly to the Board, through the Audit Committee, on the company's tax policies and the tax implications of the company's most significant operations during the year. On 25 January 2016 the ENDESA Board ratified adoption of the Code by Endesa, S.A. and its controlled subsidiaries in Spain, following the addition of an Appendix to same with new obligations of conduct for both the Company and the Administration."

Endesa is also a signatory to the United Nations Global Compact, which promotes implementation, on an international level, of the 10 universally accepted principles for promoting corporate social responsibility (CSR) in the areas of human rights, labour regulations, the environment and the fight against corruption in companies' business strategy and activities.

This annual corporate governance report was adopted by the company's board of directors at its meeting held on 22/02/2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes ☐ No ☒

The 2016 Consolidated Management Report of **ENDESA, Sociedad Anónima and SUBSIDIARIES**, contained herein, was authorised for issue by the Board of Directors of ENDESA, S.A. on **22 February 2017** and is signed in conformity by all the Directors, pursuant to Article 253 of the Corporate Enterprises Act.

Borja Prado Eulate **Chairman**	**Francesco Starace** **Vice Chairman**
José Damián Bogas Gálvez **Chief Executive Officer**	**Alejandro Echevarría Busquet** **Director**
Livio Gallo **Director**	**Ignacio Garralda Ruiz de Velasco** **Director**
Francisco de Lacerda **Director**	**Alberto de Paoli** **Director**
Helena Revoredo Delvecchio **Director**	**Miquel Roca Junyent** **Director**
Enrico Viale **Director**	

Madrid, 22 February 2017

ENDESA Group

Auditor's report on the "Information relating to Internal Control over Financial Reporting (ICFR-SCIIF in Spanish)" for 2016

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Translation of a report originally issued in Spanish. In the event of discrepancy the Spanish-language version prevails

AUDITOR'S REPORT ON THE "INFORMATION RELATING TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR-SCIIF IN SPANISH)" OF THE ENDESA GROUP FOR 2016

To the Directors,

At the request of the management of ENDESA, S.A. (the Parent Company) and its subsidiaries (the Group), and in accordance with our engagement letter dated December 20, 2016, we have performed certain procedures on the accompanying "ICFR-related information" included in the 2016 Annual Corporate Governance Report of the Group, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR data.

It is worth noting that apart from the quality of design and operability of the ENDESA Group's internal control system in relation to its annual financial information, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Group's internal control system was to establish the scope, nature, and timing of the audit procedures performed on the Company's financial statements. Therefore, our internal control assessment, performed for the audit of the aforementioned financial statements, was not sufficiently extensive to enable us to issue a specific opinion on the effectiveness of the internal control over the regulated annual financial information issued.

For the purpose of issuing this report, we exclusively applied the following specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit or a review on the internal control system, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's annual financial information for 2016 described in the accompanying ICFR. Consequently, had we performed procedures additional to those shown in the abovementioned Guidelines, or carried out an audit or review on the internal control system of regulated annual financial information, other matters might have come to our attention which would have been reported to you.

Since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an opinion in the terms established therein.

The following procedures were applied:

1. Read and understand the information prepared by the Group in relation to the ICFR - which is provided in the disclosure information included in the Management Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the Annual Corporate Governance Report model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Question personnel in charge of preparing the information described in the above section 1, to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions; (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should, mainly, include that information directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the internal audit function, senior executives and other internal/external specialists in their role supporting the Audit Committee.
4. Compare the information contained in section 1 above with the Group's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board of Directors Meetings, Audit Committee, and other Company commissions in order to evaluate the consistency between issues described in the minutes related to the ICFR and information discussed in section 1 above.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the issuance of the information discussed in section 1 above.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Spain's Corporate Enterprises Act, and the Circular nº 7/2015, of December 22, of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

February 22, 2017

José Agustín Rico Horcajo