Annual Report
of Enel Finance International N.V.
at December 31, 2018

Contents

Director's report

General information

The Management of the Company hereby presents its financial statements for the financial year ended on 31 December 2018.

Enel Finance International N.V. ("the Company") is a public company with limited liability, where 74.99% of the shares are held by Enel Holding Finance S.r.l and 25.01% of the shares are held by Enel S.p.A., parents companies, having their seats in Rome, Italy.

Enel S.p.A. is the ultimate controlling shareholder of the Company.

The Company is registered with the trade register of the Dutch chamber of commerce under number 34313428. The Company operates as a financing company y for the Enel Group, raising funds through bond issuances, loans and other facilities and on turn lending the funds so raised to the companies belonging to the Enel Group.

Significant events in 2018

Issue of new green bond in Europe for Euro 1,250 million

On January 9, 2018 the Company successfully placed its second green bond on the European market. It is reserved for institutional investors and is backed by a guarantee issued by Enel.

The issue amounted to total of Euro 1,250 million and provided for repayment in a single instalment at maturity on September 16, 2026 and the payment of a fixed rate coupon equal to 1.125%, payable annually in arrears in the month of September as from September 2018. The issue price was set at 99.184% and the effective yield at maturity is equal to 1.225%

The net proceeds of the issue – carried out under Euro Medium-Term Notes Program – will be used to finance and/or to be identified in accordance with the "Green Bond Principles "published by the International Capital Market Association (ICMA).

Novation of derivatives

The Company novated certain derivative operations entered into by Enel S.p.A. and market counterparties and contextually mirrored by means of intercompany operations between the Company and Enel S.p.A. with the same legal nature and financial conditions.

Enel S.p.A. has transferred by novation to the Company all the rights, liabilities, duties and obligations under and in respect of certain transaction, signed by Enel S.p.A. itself with the original banks.

The portfolio of derivative operations included cross currency interest rate swaps, linked to the notes issued by the Company in Swiss francs, Pound sterling, Japanese yen, and US dollars, interest rate swap linked to Euro notes and interest rate swaps negotiated to fix the interest rate of the long term funding activities scheduled for the future years.

US dollar-denominated bonds

On 12 September 2018 the Company placed a multi-tranche bond issue offered on the US and international markets for institutional investors for a total of 4 billion US dollars

The transaction is structured in the following tranches:

- 1,250 million USD at a fixed rate of 4.259% maturing in 2023;
- 1,500 million USD at a fixed rate of 4.625% maturing in 2025; and
- 1,250 million USD at a fixed rate of 4.875% maturing in 2029.

To hedge forex exchange risk on new bond issue the Company entered into currency interest rate swaps.

Bond repurchase

On 3 October 2018 the Company repurchased in cash the entire 20 billion JPY bond following the exercise of the repurchase option.

The repurchase was being carried out as part of the strategy to optimize the structure of the Company's liabilities through active management of maturities and of cost of debt.

Lending Operations

During the reporting year the Company has resolved to enter as lender into several new intercompany financial agreements to support mainly the growth of the investments in the renewable energy sector.

Please see a disclosure of long-term and short-term financial instruments granted to Enel Group Companies in the notes 6 and 9.

Overview of the Company’s performance and financial position

Analysis of the Company financial position

Millions of euro

	at Dec. 31, 2018	at Dec. 31, 2017	Change
Net non-current assets:			
-other non-current financial assets	152	41	111
-other non-current financial liabilities	(1,145)	(1,290)	145
Total net non-current assets/ (liabilities)	**(993)**	**(1,249)**	**256**
Net current assets:			
-net tax receivable/ (payable)	(1)	16	(17)
-other current financial assets	292	253	39
-other current activities	-	-	-
-other current financial liabilities	(456)	(404)	(52)
-other current liabilities	(2)	(4)	2
Total net current assets/ (liabilities)	**(167)**	**(139)**	**(28)**
Gross capital employed	**(1,160)**	**(1,388)**	**228**
Sundry provisions:			
-deferred tax assets/ (liabilities)	311	341	(30)
Total provisions	**311**	**341**	**(30)**
Net Capital Employed	**(849)**	**(1,047)**	**198**
Total Shareholders' Equity	**1,746**	**1,863**	**(117)**
Net financial debt	**(2,595)**	**(2,910)**	**315**

The net non-current liabilities at 31 December 2018 decreased by Euro 256 million compared to 31 December 2017 mainly due to the positive change of fair value of derivatives (Euro 259 million) partly offser by decrease of financial prepaid expences (Euro 3 million).

Net current liabilities totaled Euro 167 million with an increase of Euro 28 million compared to 31 December 2017 mainly due to increase of interests accrued for bonds and deposits (Euro 61 million), decrease of derivatives (Euro 39 million) and increase of tax payable (Euro 17 million). This increase was partly offset by an increase of interest receivables (Euro 87 million) and decrease of other current assets (Euro 2 million)

Deferred taxes decreased by Euro 30 million reflecting temporary differences in cash flow hedge transaction accrued directly in other comprehensive income and temporary differences attributed to impairment of financial assets accrued in profit and loss.

Net capital employed stood at negative 849 million at 31 December 2018, up Euro 198 million compared to the same period of 2017. The variation is due to the decrease of the Net Financial Debt (Euro 315 million) and decrease of shareholders’ equity (Euro 117 million).

The debt-to-equity ratio at 31 December 2018 came to a negative 149% (negative 156% at 31 December 2017).

Net financial debt

Millions of euro

	at Dec. 31, 2018	at Dec. 31, 2017	Change
Long-term debt:			
- bonds	25,466	20,683	4,783
Long-term debt	*25,466*	*20,683*	*4,783*
- loans to Group companies	(18,629)	(20,397)	1,768
Long term financial receivables	*(18,629)*	*(20,397)*	*1,768*
Net long-term financial debt	**6,837**	**286**	**6,551**
Short-term debt/(liquidity):			
- bonds (short-term portion)	125	1,439	(1,314)
- l/t receivables due from Group companies (short-term portion)	(4,833)	(70)	(4,763)
Current amount of long-termt net financial debt	*(4,708)*	*1,369*	*(6,077)*
- commercial paper	1,454	980	474
- short-term loans from Group companies	3,909	4,372	(463)
Short-term loans	*5,363*	*5,352*	*11*
- short-term financial receivables due from Group companies	(7,105)	(6,595)	(510)
- cash collateral on derivatives	(932)	(531)	(401)
- other sundry receivables	(18)		(18)
- financial Service Agreement with Enel S.p.A.	(1,931)	(2,480)	549
- cash and cash equivalents	(101)	(310)	209
Cash and cash equivalents and short-term financial receivables	*(10,087)*	*(9,916)*	*(171)*
Net short-term financial debt/(liquidity)	**(9,432)**	**(3,195)**	**(6,237)**
NET FINANCIAL DEBT	**(2,595)**	**(2,910)**	**315**

Net financial debt amounting to negative Euro 2,595 million at 31 December 2018 (Euro 2,910 million at 21 December 2017).

Net long-term financial debt totaled to Euro 6,837 million, having a sharp increase by Euro 6,551 million due to an increase of long-term debt (Euro 4,783 million) and a decrease of long-term financial receivebles (Euro 1,768 million).

Bonds stood at Euro 25,466 million increased by Euro 4,783million mailby due to new issuance (Euro 4,681 million), negative foreign exchange effect (Euro 468 million) on the outstanding bonds denominated in non-Euro currencies and amortised costs (Euro 35 million) partly offset by repayment (Euro 148 million), reclassification due to at maturity 2018 within the current financial liabilities (Euro 125million) and recalculation of amortised cost adopting IFRS 9 (Euro 128 million).

Long-term financial receivables totals to Euro 18,629 million decreased by Euro 1,768million compared to the same period of 2017 mainly due to reclassification of the current portion of loans (Euro 4,839 million), repayment of loans granted to EGP North America and Enel Iberia S.r.l.(Euro 896 million), impairment (Euro 22 million). Such decrease was partly offset by new loans greanted to the Group companies (Euro 3,932 million) and foreign exchange effect (Euro 57 million)

Net short-term financial liquidity increased by Euro 6,237million to Euro 9,432 million with the change principally referring to:

- reclassification of current portion of long-term loans (Euro 4,839 million);

- repayment of bonds (Euro 1,439 million);
- increase of outstanding amount of revolving lines granted to Group companies and other receivebles(Euro 546 million);
- decrease of deposits palced by Group companies (Euro 463 million)
- increase of cash collaterals on (Euro 401 million)

This increase was partly offset by

- issue of commercial papers (Euro 474 million)
- repayment of current portion of loans (Euro 70million)
- decrease of cash and cash equivalents (Euro 208 million)
- decrease of service agreement with Enel Spa (Euro 549 million)
- reclassification fo bond within the current financial liabilities (Euro 125million);
- allowance for impairment over short-term financial receivables and current potrion of long-term loans (Euro 25 million).

Main Risks and uncertainties

In compliance with the new provisions in Dutch Accounting Standard 400, the Company has drawn up elements of its risk section as follows.

Methodology

Enel Finance International N.V. ("EFI") adopts risk governance and control arrangements defined at Group level, applicable for all wholly owned companies and companies with controlling interest, with specific reference to financial risks (market, credit and liquidity risks). In order to mitigate its risk exposure, the Company conducts specific analysis, monitoring, management and control activities.

The Company operates within Treasury Guidelines, which provide capital markets and treasury operational framework. Based on current power of attorney, hedging are the subject of Board of Directors consideration and approval.

Current or planned improvements in the risk management system

The Board of Directors considers that the existing system of risk management and internal controls provides reasonable assurance that risks are properly assessed and managed to achieve business objectives.

The most significant risks and the risk reduction measures taken

The Company is willing to bear a low-to-moderate level of residual risk for those factors that are intrinsically related to the pursuit of its mission of providing financial services, including funding, lending and liquidity management, to Enel Group companies, namely liquidity, interest rate, foreign exchange, credit and counterparty risk.

Additionally, the Company, as a global issuer, is exposed to compliance risks with applicable laws and regulation, as well as fiscal risk. No risk appetite is defined for compliance risks and the Company control activities aim at ensuring full compliance.

Financial risks

<u>Credit risk and counterparty risk</u>

Lending and hedging transactions expose the Company to credit and counterparty risk, i.e. the possibility of a deterioration in the creditworthiness of its counterparties that could have an adverse impact on the expected value of the creditor position or could lead to a failure to honor their obligations.

The lending activity is the most important source of credit risk, and, for the very nature of its activity, the Company is prepared to bear a medium level of risk. Nevertheless, such level of risk is significantly mitigated as borrowers are related parties.

The Company has a consistent counterparty risk exposure to banking counterparties, stemming from derivative transactions traded for hedging purposes and short term treasury activity. The Company has a very low appetite to counterparty risk and pursues risk mitigation through the selection of counterparties with a high credit standing and the adoption of specific standardized contractual frameworks that contain risk mitigation clauses and possibly the exchange of cash collateral.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Company, while solvent, would not be able to discharge its obligations in a timely manner or would only be able to do so on unfavorable terms owing to situations of tension or systemic crises (credit crunches, sovereign debt crises, etc.) or changes in the perception of Company riskiness by the market.

Among the factors that define the risk perceived by the market, the credit rating assigned to Enel Finance International NV by rating agencies plays a decisive role, since it influences its ability to access sources of financing and the related financial terms of that financing. A deterioration in the credit rating could therefore restrict access to the capital market and/or increase the cost of funding, with consequent negative effects on the performance and financial situation of the Company. In 2018, Company's ratings from the rating agencies Moody's and Fitch did not change. Accordingly, at the end of the financial year, Company's rating was: (i) "BBB+" with a stable outlook for Fitch; and (iii) "Baa2" with a stable outlook for Moody's. However, Fitch upgraded its rating from "BBB+" to "A-" during February 2019.

EFI liquidity risk management policies are designed to maintain a level of liquidity sufficient to meet its obligations over a specified time horizon, without having recourse to additional sources of financing, as well as to maintain a prudential liquidity buffer sufficient to meet unexpected obligations. In addition, in order to ensure that the Company can meet its medium and long-term commitments, EFI pursues a borrowing strategy that provides for a diversified structure of financing sources to which it can turn and a balanced maturity profile.

Please see Risk management section of financial statements for more detailed information about liquidity risk.

<u>Exchange rate</u>

Due to its international funding and lending activity, the Company is significantly exposed to exchange rate risk associated with cash flows and value of financial assets and liabilities denominated in foreign currencies.

Consistently with Enel Group risk policy and with the Company low risk appetite, the currency profiles of funding and lending portfolios are balanced by making recourse to derivative transactions, with the aim of minimizing the residual exposure.

<u>Interest rate risk</u>

The Company is exposed to the risk that changes in the level of interest rates could produce unexpected changes in net financial expense or the value of financial assets and liabilities measured at fair value, related to its funding, lending and hedging portfolios.

The exposure to interest rate risk derives mainly from the variability of the terms of financing and lending, in the case of new issues, and from the variability of the cash flows of floating-rate assets and liabilities.

The policy for managing interest rate risk aims to contain financial expense and its volatility by optimizing the Company's portfolio of financial assets and liabilities and by entering financial derivatives on OTC markets.

A certain level of interest rate risk is intrinsic in the Company's mission and has be actively managed to ensure value creation.

Compliance risks

Fiscal risk

The Company may be subject to unfavorable changes in the respective tax laws and regulations. The financial position of the Company may be adversely affected by new laws, changes in the interpretation of existing laws or tax policy. The Company adopts a conservative approach based on an open collaboration with tax authorities.

Compliance with current legislation

The Company is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards. Internal monitoring activities allow prompt identification of possible breaches of compliance and consequent remediation actions, when needed.

Compliance with bond and loan agreements

Bonds final terms and loan agreements prescribe a set of covenants, which the Company should comply with. Any breaches and defaults may have high adverse effect on the Company's activity.

Internal monitoring activities allow prompt identification of possible breaches of compliance and consequent remediation actions, when needed.

Brexit

The decision of the United Kingdom to leave the European Union ("Brexit") is not expected to have material direct impacts on the financial or economic position of the Company, given that the latter is not present in the United Kingdom and risks related to transactions with English counterparties, under English law or in this jurisdiction are not considered significant. In any case, developments of Brexit negotiations are closely and continuously followed.

Summary table

Following table represents the summary of main risks, controls and actions taken to mitigate risks.

Risk area	Risk component	Source of risk	Risk control	Risk appetite	Risk mitigation	Impact of Company's results after risk mitigation
Financial risks	Credit and counterparty risk	Lending activity Cash deposits, derivatives	Financial Risk Policy	**Medium**	Related parties High credit profile, cash collaterals	**Low**
Financial risks	Liquidity risk	Different maturity of funding and lending facilities Liquidity surplus	Financial Risk Policy Monthly analysis of funding-lending cash flows	**Medium**	Matching of short-term cash-in and cash-out Available credit lines Sufficient level of available cash and cash equivalents	**Low**
Financial risks	Exchange rate	Non-Euro denominated funding and lending	Financial Risk Policy Treasury Guidelines	**Medium**	Full hedging policy with derivatives	**Low**

	Interest rate	Floating rate facilities Future unknown market conditions	Financial Risk Policy Treasury guidelines	**Low** **Medium**	Hedging policy with derivatives	**Low** **Medium**
compliance risks	**Fiscal**	Change in applicable tax laws or policy	Collaboration with tax authorities	**Nil**	Collaboration and regular reconciliations with tax authorities Monitoring of significant changes	**Very low**
	Compliance with current legislation	Remote cases of systems disruption, new business processes to be integrated within existing compliance processes, possible regulatory uncertainties	Internal control system	**Nil**	Permanent improvement of internal control system and procedures	**Very low**
	Compliance with bond and loan agreements	Covenants	Covenants monitoring	**Nil**	Preventive analysis of covenants compliance	**Very low**

Quantification of the impact on the result and financial position if the risks materialize

In 2018 the Company was exposed to exchange risk in relation with non-Euro denominated debt. There was a significant exposure to fluctuation of the Euro against the U.S. dollar, which has recently been subject to market volatility, British pound and Swiss franc.

At 31 December 2018 risk was fully covered by corresponding derivatives.

	at Dec. 31, 2018					
million euro	**Gross debt**			**Derivatives**	**After risk mitigation**	
	Book value	Notional value				
Euro	**10,135**	**10,698**	**40.7%**	**15,575**	**26,273**	**100.0%**
US dollar	12,563	12,658	48.2%	(12,658)	-	0.0%
British pound	2,490	2,514	9.6%	(2,514)	-	0.0%
Swiss franc	403	403	1.5%	(403)	-	0.0%
Total Non-Euro	**15,456**	**15,575**	**59.3%**	**(15,575)**	**-**	**0.0%**
Total	**25,591**	**26,273**	**100.0%**	**-**	**26,273**	**100.0%**

The future significant variations in exchange rates would not materially and adversely affect the Company’s financial position.

Please see Risk Management section for sensitivity analysis on exchange rate.

As shown in the table below in 2018 the Company has low exposure to interest rate risk, nevertheless the risk had not be fully eliminated. The Company used derivative instruments aiming at transforming floating rate liabilities into fixed rate liabilities

million euro	at Dec. 31, 2018			
	Before risk mitigation		**After risk mitigation**	
Floating rate	450	1.7%	50	0.2%
Fixed rate	25,823	98.3%	26,223	99.8%
Total	**26,273**	**100.0%**	**26,273**	**100.0%**

The future significant variations in interest rates would not materially and adversely affect the Company's financial position.

Please see Risk Management section for sensitivity analysis on interest rate.

Related Parties

The main activity of Enel Finance International N.V. is to operate as financing company of the Enel Group, raising funds through bonds issuance, loans and other facilities and on turn lending the funds so raised to the companies belonging to Enel Group; all the transactions are part of the ordinary operations of the Company and are settled on the basis of Standard intra-Group contract market prices.

Outlook

The Company should evolve normally during 2018, with the aim to maintain the same funding and lending activities currently ongoing, keeping on supporting Enel Group in its developing and consolidation process.

Board of Directors composition

The Company's organization is characterized by a Board of Directors charged with managing the Company and a Shareholders' Meeting.

The Company is a so-called Public Interest Entity ("Organisatie van Openbaar Belang") which requires the establishment of an audit committee. The Company however makes use of the exemption in Article 3(a) of the Dutch Decree on the Audit Committee ("Besluit instelling auditcommissie") as foreseen in Article 39(3)(a) of Directive 2006/43/CE, as amended by Directive 2014/56/EU of the European Parliament and of the Council, as its Parent Company (Enel S.p.A.) is an entity that fulfils the requirements set out in paragraphs 39(1), (2) and (5) of Directive 2006/43/CE, as amended by Directive 2014/56 EU, Article 11(1), Article 11(2) and Article 16(5) of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Pursuant to Article 19, subsection 2 of Italian Legislative Decree 39/2010 - as amended by Legislative Decree 135/2016, implementing Directive 2014/56 EU - the audit committee of Enel S.p.A. coincides with the "collegio sindacale" (board of statutory auditors).* According to the legislation in force, the members of the board of statutory auditors of Enel S.p.A. must possess the requisites of integrity, professionalism and independence imposed upon the statutory auditors of listed companies, as supplemented (only as regards the professionalism requisites) by specific provisions of the bylaws.

Taking into account the legislation that entered into force in the Netherlands on 1 January 2013 and concerning the composition of the companies' Board of Directors, we highlight that the Board members of the Company are currently all men. Nonetheless, the Company believes that the composition of its Board of directors has a broad diversity of experience, expertise and backgrounds, and that the backgrounds and qualifications of the directors, considered as a group, provide a significant mix of experience, knowledge, abilities and independence that we believe will allow our board of directors to fulfill its responsibilities and properly execute its duties.

The Company is looking for the opportunities to reach diversity in the seats' distribution as referred to in Articles 2:166 and 2:276.

Remuneration of Directors is definded in accordance with Remuneration policy of the management board of Enel Finance International N.V., recently amended by the Shareholder (Resolution of the Sole Shareholder 23.01.2017)

The Company's control system

The appropriatness of the administrative and accounting procedures used in the preparation of the financial statements has been verified in the assessment of the internal control system for financial reporting. The assessment of the international control system for financial reporting did not identify any material issues.

16 December 2016 the Company adopted the new Enel Global Compliance Program ("EGCP"), addressed to the foreign subsidiaries of the Enel Group. The aim of EGCP is to reinforce commitement of the Company to the highest ethical, legal and professional standards for enhancing and preserving the reputation as well as the prevention of criminal behaviour abroad, which may lead to a corporate criminal liability to the Company.

Subsequent events

On 15 January 2019 the Company placed its third green bond on the European market, reserved for institutional investors and backed by a guarantee issued by Enel.

The issue amounts to a total of 1,000 million euros and provides for repayment in a single instalment at maturity on 21 July 2025 and the payment of a fixed-rate coupon equal to 1. 500%, payable annually in arrears in the month of July as from 2019. The issue price has been set at 98.565% and the effective yield at maturity is equal to 1.1.736%.

Reporting of non-financial information

Enel Group, in implementation of the new EU (Directive 2014/97/EU) and national legislation that has introduced mandatory of non-financial information as from 2018 financial year for large public-interest entities, has drafted a "Consilodated Non-Financial Statement" that covers the areas provided for in that decree, accompanying the Group's Sustainability Report.

Report can be obtained from the investor relations section of Enel S.p.A. official website (http://www.enel.com).

Personnel

At 31 December 2018 the Company had, other than the directors, eight employees (eleven people at 31 December 2017). Average headcount comprised ten people (ten people for the 2017). All people worked in the Netherland.

Statement of the Board of Directors

Statement ex Article 5:25c Paragraph 2 sub c Financial Markets Supervision Act ("Wet op net Financieel Toezicht").

To our knowledge,

> the financial statements give a true and fair view of the assets, liabilities, financial position and result of Enel Finance International N.V.;

> the Director's Report gives a true and fair view of the Company's position as per 31 December 2018 and the developments during the financial year 2018;

> the Director's Report describes the principal risks the Company is facing.

This annual report is prepared according to International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and it is externally fully audited by Ernst & Young Accountants LLP. Furthermore this annual report complies with the EU Transparency Directive enacted in the Netherlands in 2008 and subsequently came into force as from 1 January 2009. The Company's main obligations under the aforementioned Transparency Directive can be summarized as follows:

> filing its approved annual financial statements electronically with the AFM (Autoriteit Financiele Markten) in the Netherlands within five days after their approval;

> making its annual financial report generally available to the public by posting it on Enel S.p.A. official website within 4 months after the end of the 2018 fiscal year (by 30 April 2018);

> making its annual financial report generally available to the public by issuing an information notice on a financial newspaper or on a financial system at European level within 4 months after the end of the 2018 fiscal year (by 30 April 2019).

Amsterdam, 18 April 2019

A.J.M. Nieuwenhuizen
H. Marseille
E. Di Giacomo
A. Canta

Financial statements

for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Statement of comprehensive income

Millions of euro	Note	2018	2017
Costs			
Services	1	(2)	(3)
Personnel	1	(1)	(1)
	(Subtotal)	**(3)**	**(4)**
Operating income		**(3)**	**(4)**
Financial income			
Interest income	2	1,173	1,094
Financial income from derivatives	3	1,311	1,155
Other financial income	2	325	1,379
	(Subtotal)	**2,809**	**3,628**
Financial expense			
Interest expense	2	(1,117)	(1,182)
Financial expense from derivative	3	(974)	(2,002)
Other financial expense	2	(558)	(546)
	(Subtotal)	**(2,649)**	**(3,730)**
Net financial income/ (expense)		**160**	**(102)**
Income/(Loss) before taxes		**157**	**(106)**
Income Taxes	4	(58)	10
Net income/(loss) for the year (attributable to the shareholder)		**99**	**(96)**
Other components of comprehensive income recyclable to profit or loss in future periods:			
- effective portion of change in fair value of cash flow hedges net of deferred taxes	17	(298)	(47)
- Change in the fair value of costs of hedging net of deferred taxes	17	54	**-**
Total comprehensive income/(loss) for the period		**(145)**	**(143)**

Statement of financial position

Millions of Euro	Note		
ASSETS		**at Dec.31, 2018**	atDec.31, 2017
Non-current assets			
Deferred tax assets	5	324	341
Long-term loans and financial receivables	6	18,629	20,397
Derivatives	7	141	28
Other non-current financial assets	8	11	13
	(Subtotal)	**19,105**	**20,779**
Current assets			
Income tax receivable		-	16
Current portion of long-term loans and financial receivables	6	4,833	70
Short-term loans and financial receivables	9	9,036	9,076
Derivatives	7	31	79
Other current financial assets	10	1,230	705
Other current assets		4	0
Cash and cash equivalents	11	101	310
	(Subtotal)	**15,235**	**10,256**
TOTAL ASSETS		**34,340**	**31,035**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	12	1,479	1,479
Share premium reserve	12	1,026	1,026
Cash flow hedge reserve	12	(1,014)	(924)
Cost of hedging reserve	12	(154)	-
Retained earnings	12	309	378
Net income for the period	12	99	(96)
Total shareholder's equity		**1,745**	**1,863**
Non-current liabilities			
Long-term loans and borrowings	13	25,466	20,683
Deferred tax liabilities	5	13	
Derivatives	7	1,145	1,290
	(Subtotal)	**26,624**	**21,973**
Current liabilities			
Income tax payable		1	-
Current portion of long-term loans	13	125	1,439
Short-term loans and borrowings	14	5,387	5,352
Derivatives	7	27	36
Other current financial liabilities	15	429	368
Other current liabilities		3	4
	(Subtotal)	**5,971**	**7,199**
TOTAL EQUITY AND LIABILITIES		**34,340**	**31,035**

Statement of changes in equity

Millions of euro

	Share capital	Share premium reserve	Cash flow hedge reserve	Cost of hedging reserve	Retained earnings	Net income for the period	**Equity attributable to the shareholders**
At January 1, 2017	**1,479**	**1026**	**(877)**	**-**	**333**	**45**	**2,006**
Allocation of net income from the previous year	-	-	-	-	45	(45)	-
Comprehensive income for the year:	-	-	(47)	-	-		(47)
of which:							
- other comprehensive income (loss) for the period	-	-	*(47)*	-	-		*(47)*
- net income for period	-	-	-	-	-	*(96)*	*(96)*
At December 31, 2017	**1,479**	**1,026**	**(924)**	-	**378**	**(96)**	**1,863**
-Impact of adopting IFRS 9	-	-	208	(208)	27	-	27
At January 1, 2018	**1,479**	**1,026**	**(717)**	**(924)**	**405**	**(96)**	**1,890**
Allocation of net income from the previous year	-	-	-	-	(96)	96	-
Comprehensive income for the year:	-	-	(298)	54	-		(244)
of which:							
- other comprehensive income (loss) for the period	-	-	*(298)*	*54*	-		*(244)*
- net income for period	-	-	-	-	-	*99*	*99*
At December 31, 2018	**1,479**	**1,026**	**(1,015)**	**(154)**	**309**	**99**	**1,745**

Statement of cash flows

Millions of euro	Note	2018	2017
Income for the period		**99**	**(96)**
Adjustments for:			
Financial (income)	2,3	(2,809)	(3,628)
Financial expense	2,3	2,649	3,730
Income taxes	4	58	(10)
Cash flow from operating activities before changes in net current assets		*(3)*	*(4)*
(Increase)/Decrease in financial and non-financial assets/liabilities		(17)	1,045
Interest income and other financial income collected		1,441	803
Interest expense and other financial expense paid		(1,791)	(1,344)
Income taxes paid		(3)	(16)
Cash flows from operating activities (a)		**(373)**	**484**
New loans granted to Enel S.p.A. and affiliates		*(4,585)*	*(6,602)*
Repayments and other movements from Enel S.p.A. and affiliates		*1,650*	*3,202*
Cash flows from investing/disinvesting activities (b)		**(2,935)**	**(3,400)**
Financial debt (new borrowings)	13, 14	5,155	8,482
Financial debt (repayments)	13, 14	(2,050)	(5,348)
Cash flows from financing activities (c)		**3,105**	**3,134**
Increase/(Decrease) in cash and cash equivalents (a+b+c)		(209)	218
Cash and cash equivalents at the beginning of the year		**310**	**92**
Cash and cash equivalents at the end of the year		**101**	**310**

Notes to the financial statements

Form and content of the financial statement

Enel Finance International N.V. ("the Company") is as a limited liability company under the laws of the Netherlands on 26 September 2008. The Company is registered with the trade register of the Dutch chamber of commerce under number 34313428 with business address at Herengracht 471, 1017 BS Amsterdam, the Netherlands. The Company is established for an indefinite duration.

Enel Finance International N.V. ("the Company") is a public company with limited liability, where 74.99% of the shares are held by Enel Holding Finance S.r.l and 25.01% of the shares are held by Enel S.p.A., parents companies, having their seats in Rome, Italy.

Enel S.p.A. is the ultimate controlling shareholder of the Company.

Company's financial statements are included into the consolidated financial statements of Enel S.p.A., which can be obtained from the investor relations section of Enel S.p.A. official website (http://www.enel.com).

Corporate purpose

The Company operates as a financing company for the Group, raising funds through bond issuances, loans and other facilities and on turn lending the funds so raised to the companies belonging to the Enel Group. The Company is also part of the centralising financial process and acts as the primary reference for the management of financial needs or liquidity generated by the Enel Group companies.

The Company acts solely as a financing company for Enel Group and therefore is not engaged in market competition in the energy sector with third parties.

The Company is managed by a management board composed of five members, appointed by the general meeting of shareholders, which may dismiss them at any time. The management board has the power to perform all acts of administration and disposition in compliance with the corporate objects of the Company.

The joint signatures of any two members of the management board or the single signature of any person to whom such signatory shall have been appointed by the management board may bind the Company.

Compliance with IFRS/IAS

The financial statements for the year ended 31 December 2018 have been prepared in accordance with international accounting standards (International Accounting Standards – IAS and International Financial Reporting Standards – IFRS) issued by International Accounting Standards Board (IASB), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 and in effect as of the close of the year. All of these standards and interpretations are hereinafter referred to as the "IFRS-EU". The financial statements have also been prepared in conformity with the statutory provisions of the Netherlands Civil Code, Book 2, Title 9.

These financial statements were approved by the Board of Directors and authorised for issue effective on 18 April 2018

Basis of presentation

The financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and the related notes.

The financial statements have been prepared on the historical costs basis except for the following material items:

- Derivative financial instruments, valued at fair value;
- Financial assets and financial liabilities recognized at amortized cost.

The assets and liabilities reported in the financial position are classified on a "current/non-current basis". Current assets, which include cash and cash equivalents, are assets that are intended to be used during the normal operating cycle of the Company or in the twelve months following the balance-sheet date; current liabilities are liabilities that are expected to be settled during the normal operating cycle of the Company or within the twelve months following the close of the financial year.

The income statement is classified on the basis of the nature of expenses, while the indirect method is used for the cash flow statement.

The Company initially recognizes financial receivables and deposits when, and only when, the Company becomes party to the contractual provision of the instrument (trade date).

All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Functional and presentation currency

The financial statements are presented in euro, the functional currency of Enel Finance International N.V. All figures are shown in millions of euro unless stated otherwise.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for IFRS 9 that has been adopted in 2018.

Going Concern

Enel S.p.A. has provided financial support to the Company should it not be able to meet its obligations. This intent has been formally confirmed by Enel S.p.A. in a support letter issued on 13 February 2019 and valid until next year's approval date of the Financial Statements should the company remain under control of the Enel Group. Based upon this comfort letter received by the parent company, Company's management has prepared the financial statements on the basis of a positive going concern assumption.

Solvency

Given the objectives of the company, the Company is strictly economically interrelated with Enel S.p.A. In assessing the solvency as well as the general risk profile of the Company, the solvency of the Enel Group as a whole, headed by Enel S.p.A. should be considered.

Accounting policies and measurement criteria

Use of estimates

Preparing the financial statements under IFRS-EU requires the use of estimates and assumptions that affect the carrying amount of assets and liabilities and the related information on the items involved, as well as the disclosure required for contingent assets and liabilities at the balance sheet date. The estimates and the related assumptions are based on previous experience and other factors considered reasonable in the circumstances. They are formulated when the carrying amount of assets and liabilities is not easily determined from other sources. The actual results may therefore differ from these estimates. The estimates and assumptions are periodically revised and the effects of any changes are reflected in the income statement if they only involve that period. If the revision involves both the current and future periods, the change is recognized in the period in which the revision is made and in the related future periods. Estimates were used only with regard to the valuation of financial instruments and recoverability of receivables. These estimates and assumptions are discussed in the note on the accounting policies adopted.

Related parties

Transaction with related parties

The Company is subject to transactions with related parties, and adopted the policy defined by the Parent Company Enel S.p.A.

According to this policy, the Board of Directors of Enel S.p.A. adopted regulations that establish the procedures for approving and carrying out transactions undertaken by Enel S.p.A. or its subsidiaries with related parties, in order to ensure the transparency and correctness, both substantial and procedural, of the transactions. According to these regulations, the Internal Control Committee of Enel S.p.A. is entrusted with the prior examination of the transactions with related parties, with the exception of those that present a low level of risk for Enel S.p.A. and the Enel Group.

After the Internal Control Committee has completed its examination, the Board of Directors gives its prior approval (if the transactions regard the Enel S.p.A.) or prior evaluation (if the transactions regard Group companies) of the most significant transactions with related parties, by which is meant (i) atypical or unusual transactions; (ii) transactions with a value exceeding Euro 25 million (with the exception of the previously mentioned ones that present a low level of risk for Enel S.p.A. and the Group); and (iii) other transactions that the Internal Control Committee thinks should be examined by the Board of Directors.

All transactions with related parties were carried out on normal market terms and conditions.

Translation of foreign currencies

Transactions in currencies other than the functional currency are recognized in these financial statements at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency other than the functional currency are later adjusted using the balance sheet exchange rate.

Non-monetary assets and liabilities in foreign currency stated at historic cost are translated using the exchange rate prevailing on the date of initial recognition of the transaction. Non-monetary assets and liabilities in foreign currency stated at fair value are translated using the exchange rate prevailing on the date when that value was determined.

Any exchange rate differences are recognized in profit or loss.

Financial instruments.

Financial instruments are any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity; they are recognised and measured in accordance with IAS 32 and IFRS 9.

A financial asset or liability is recognised in the financial statements when, and only when, the Company becomes party to the contractual provision of the instrument (trade date).

Conversely, the Company initially measures financial assets other than trade receivables at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Financial assets are classified, at initial recognition, as financial assets at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss, on the basis of both Company's business model and the contractual cash flows characteristics of the instrument.

For this purposes, the assessment in order to define if the insturment give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- financial assets at fair value through profit or loss.

Financial assets measured at amortised cost

This category mainly includes trade receivables, other receivables and financial receivables.

Financial assets at amortised cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and whose contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets are initially recognised at fair value, adjusted for any transaction costs, and subsequently measured at amortised cost using the effective interest method and are subject to impairment.

Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment of financial assets

At the end of each reporting date, the Company recognizes a loss allowance for expected credit losses on trade receivables and other financial assets measured at amortised cost and all other assets in the scopeof IFRS 9 expected credit loss model.

In compliance with IFRS 9, as from January 1, 2018, the Company adopted a new impairment model based on the determination of expected credit losses (ECL) using a forward-looking approach. In essence, the model provides for:

- the recognition of expected credit losses on an ongoing basis and the updating of the amount of such losses at the end of each reporting period, reflecting changes in the credit risk of the financial instrument;
- the measurement of expected losses on the basis of reasonable information, obtainable without undue cost, about past events, current conditions and forecasts of future conditions.

For all financial assets the Company applies the general approach under IFRS 9, based on the assessment of a significant increase in credit risk since initial recognition. Under such approach, loss allowance on financial assets is recognized at an amount equal to the lifetime expected credit losses, if the credit risk on those financial assets has increased significantly, since initial recognition, considering all reasonable and supportable information, including also forward-looking inputs.

If at the reporting date, the credit risk on financial assets has not increased significantly since initial recognition, the Company measures the loss allowance for those financial assets at an amount equal to 12-month expected credit losses.

For financial assets on which loss allowance equals to lifetime expected credit losses has been recognized in the previous reporting date, the Company measures the loss allowance at an amount equal to 12-month expected credit losses when significant increase in credit risk condition is no longer met.

The Company recognizes in profit or loss, as impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9.

The loss allowances for financial assets are based on assumptions about risk of default and expected credit losses. The Company uses judgement in making these assumptions and selecting the inputs for the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Cash and cash equivalents

This category is used to record cash and cash equivalents that are available on demand or at very short term, clear successfully and do not incur collection costs.

Financial liabilities at amortised cost

This category mainly includes borrowings, trade payable and debt instruments.

Financial liabilities, other than derivatives, are recognised when the Company becomes a party to the contractual clauses of the instrument and are initially measured at fair value adjusted for directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial assets and liabilities

Financial assets are derecognised whenever one of the following conditions is met:

- the contractual right to receive the cash flows associated with the asset expires;

- the Company has transferred substantially all the risks and rewards associated with the asset, transferring its rights to receive the cash flows of the asset or assuming a contractual obligation to pay such cash flows to one or more beneficiaries under a contract that meets the requirements provided by IFRS 9 (the "pass through test");
- the Company has not transferred or retained substantially all the risks and rewards associated with the asset but has transferred control over the asset.

Financial liabilities are derecognised when they are extinguished, i.e. when the contractual obligation has been discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments

A derivative is a financial instrument or another contract:

- whose value changes in response to the changes in an underlying variable such as an interest rate, commodity or security price, foreign exchange rate, a price or rate index, a receivable rating or other variable;
- that requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market factors;
- that is settled at a future date.

Derivative instruments are classified as financial assets or liabilities depending on the positive or negative fair value and they are classified as "held for trading" within "Other business model" and measured at fair value through profit or loss, except for those designated as effective hedging instruments.

For more details about hedge accounting, please refer to the note 17 "Derivatives and hedge accounting".

All derivatives held for trading, are classified as current assets or liabilities.

Derivatives not held for trading purposes, but measured at fair value through profit or loss since they do not qualify for hedge accounting and derivative designated as effective hedging instruments are classified as current or not current on the basis of their maturity date and the Group intention to hold the financial instrument till maturity or not.

Classification and measurement of financial instruments (applicable before 1 January 2018)

Before 1 January 2018, financial instruments were classified, based on the criteria in IAS 39.

Loans and receivables included non-derivative financial and trade receivables, including debt securities, with fixed or determinable payments that were not quoted on an active market that the entity does not originally intend to sell. Such assets were initially recognized at fair value, adjusted for any transaction costs, and subsequently measured at amortized cost using the effective interest method, net of any impairment losses. Such impairment losses were calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted using the original effective interest rate.

Cash and cash equivalents was used to record cash and cash equivalents that were available on demand or at very short term, clear successfully and do not incur collection costs.

Financial liabilities other than derivatives were recognized at the settlement date when the company becomes a party to the contractual clauses representing the instrument and were initially measured at fair value, less directly attributable transaction costs. Financial liabilities were subsequently measured at amortized cost using the effective interest method.

Derivative financial instruments were recognized at fair value and were designated as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge (assessed periodically) meets the thresholds envisaged under IAS 39.

The manner in which the result of measurement at fair value was recognized depends on the type of hedge accounting adopted.

When derivatives were used to hedge the risk of changes in the cash flows generated by the hedged items (cash flow hedges), changes in fair value are initially recognized in equity, in the amount qualifying as effective, and subsequently released to profit or loss in line with the gains and losses on the hedged item. The ineffective portion of the fair value of the hedging instrument was taken to profit or loss.

Changes in the fair value of trading derivatives and those that no longer qualify for hedge accounting under IAS 39 were recognized in the income statement. Trading derivatives were not held for trading but commonly used name for foreign exchange transactions. Derivative financial instruments were recognized at the trade date. Financial and non-financial contracts (that were not already measured at fair value) were analyzed to identify any embedded derivatives, which must have been separated and measured at fair value. This analysis was conducted at the time the entity became party to the contract or when the contract was renegotiated in a manner that significantly changes the original associated cash flows.

Fair value was determined using the official prices for instruments traded on regulated markets. For instruments not traded on regulated markets fair value was determined on the basis of the present value of expected cash flows using the market yield curve at the reporting date and translating amounts in currencies other than the euro at end-year exchange rates.

The Company measured the credit risk both of the counterparty (Credit Valuation Adjustment or CVA) and of its non-performance credit risk (Debit Valuation Adjustment or DVA), in order to make the adjustment of the fair value of derivative financial instruments for the corresponding value of counterparty risk. In particular, the Company measured the CVA/DVA based on the net exposure and, subsequently, allocating the adjustment on each financial instrument that constitutes the portfolio.

In order to measure the CVA / DVA, the Company used a valuation technique based on the Potential Future Exposure, whose inputs are observable on the market.

Fair value hierarchy pursuant to IFRS 13

Assets and liabilities measured at fair value are classified in a three-level hierarchy as described below, in consideration of the inputs used to determine such fair value.

In particular:

- Level 1 includes financial assets or liabilities measured at fair value on the basis of quoted prices in active markets for such instruments (unadjusted);

- Level 2 includes financial assets/liabilities measured at fair value on the basis of inputs other than those included in Level 1 that are observable either directly or indirectly on the market;
- Level 3 includes financial assets/liabilities whose fair value was calculated using inputs not based on observable market data.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Financial income and expense

Financial income and expense is recognized on an accruals basis in line with interest accrued on the net carrying amount of the related financial assets and liabilities using the effective interest method. They include the changes in the fair value of financial instruments recognized at fair value through profit or loss and changes in the fair value of derivatives connected with financial transactions.

Dividends

Dividends and interim dividends payable to the Company's sole shareholder are recognized as changes in equity at the date they are approved by the Shareholders' Meeting and the Board of Directors, respectively.

Income taxes

Income tax expense comprises current and deferred tax.

Corporate income tax is calculated on the basis of the profit before taxation shown in the Profit and Loss Account, taking into account tax allowances and tax adjustments. As of 1 January 2015, the Company forms part of a fiscal unity with Enel Investment Holding B.V, whereby the Company is the head of the fiscal unity. The Company is jointly and severally liable for all corporate income tax liabilities of the fiscal unity. Taxation for entities within the fiscal unity is calculated on a stand-alone basis and, if required, is settled through a current account with Enel Investment Holding B.V.

Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax liabilities and assets are calculated on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding values recognized for tax purposes on the basis of tax rates in effect on the date the temporary difference will reverse, which is determined on the basis of tax rates that are in force or substantively in force at the balance sheet date.

Deferred tax assets are recognized when recovery is probable, i.e. when an entity expects to have sufficient future taxable income to recover the asset.

The recoverability of deferred tax assets is reviewed at each year-end. Taxes in respect of components recognized directly in equity are taken directly to equity.

Recently issued accounting standards

New accounting standards applied in 2018

The Company has applied the following new standards, interpretation and amendments that took effect as from January 1, 2018:

- "IFRS 9 – Financial instruments", issued, in its final version, on 24 July 2014, including "Amendments to IFRS 9: Prepayment features with negative compendation" issued in October 2017 and elected by the Company to be applied starting from 1 January 2018, replaces current IAS 39 Financial Instruments: Recognition and Measurement and overcome all the previous version.
- "IFRS 15 – Revenue from contracts with customers", issued in May 2014, including "Amendments to IFRS 15: effective date of IFRS 15", issued in September 2015, and "Clarifications to IFRS 15 Revenue from contracts with customers", issued in April 2016, which provide amendments in the standard in order to propose some clarifications with respect to practical expedients and some topics discussed by the Joint Transition Resource Group created by IASB and FASB. The new standard has replaced "IAS 11 - Construction contracts", "IAS 18 - Revenue", "IFRIC 13 - Customer Loyalty programmes", "IFRIC 15 - Agreements for the construction of real estate", "IFRIC 18 -Transfers of assets from customers", "SIC 31 Revenue – Barter transactions involving advertising services" and it applies to all contracts with customers, expect for some scope exemptions (e.g., lease and insurance contracts, financial instruments, etc.). The application of these amendments did not have an impact in the financial statements.
- "IFRIC 22 - Foreign currency transactions and advance consideration", issued in December 2016; the interpretation clarifies that, for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income (or part of it), the date of the transaction is that on which the entity recognises any non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The application of these amendments did not have an impact in the financial statements.

Forthcoming accounting standards

Below is a list of accounting standards, amendments and interpretations that will be effective for the the Company after 31 December 2018:

- "Amendments to IAS 1 and IAS 8 – Definition of Material", issued in October 2018. The amendments clarify the definition of "material" as follow: "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." By including the concept of "obscuring information" in the new definition, the amendments specifies that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. In order to avoid situations in which information that is not capable of influencing the decisions of the primary users must be included in the financial statements, the amendments also introduces a new threshold in the definition of material by replacing "could influence" with "could reasonably be expected to influence". Lastly, the amendments clarify that an entity is required to consider primary users of the financial statements (i.e. existing and potential investors, lenders and other creditors) when deciding what information to disclose. The amendments will take effect, subject to endorsement, for annual period beginning on or after 1 January 2020, with earlier application permitted. The Company is assessing the potential impact of the future application of the new provisions.

- “Revised Conceptual Framework for Financial Reporting”, issued in March 2018. The revised version includes comprehensive changes to the previous version of the Conceptual Framework issued in 2010. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria and clarifies some important concepts. In particular, it sets out:

  - the objective of general purpose financial reporting;
  - the qualitative characteristics of useful financial information;
  - a description of the reporting entity and its boundary;
  - definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;
  - criteria for recognition and derecognition of assets and liabilities in financial statements;
  - measurement bases and guidance on when to use them;
  - concepts and guidance on presentation and disclosure; and
  - concepts relating to capital and capital maintenance.

The revised Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, “Amendments to References to the Conceptual Framework in IFRS Standards”, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework.

The revised Conceptual Framework will take effect for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted. The Company is assessing the potential impact of the future application of the new provisions.

- IFRIC 23 – Uncertainty over Income Tax Treatments”, issued in June 2017; the interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The uncertainty over income tax treatments may affect both current and deferred tax. The threshold for reflecting the effects of uncertainty is whether it is probable that the taxation authority will accept or not an uncertain tax treatment assuming that the taxation authority will examine amounts it has a right to examine and have full knowledge of all related information. The interpretation also requires an entity to reassess any judgments and estimates made if a change in facts and circumstances might change an entity’s conclusions about the acceptability of a tax treatment or the entity’s estimate of the effect of uncertainty, or both. The interpretation will take effect for annual period beginning on or after 1 January 2019. The Company is assessing the potential impact of the future application of the new provisions.

- “Annual improvements to IFRSs 2015 – 2017 cycle”, issued in December 2017; the document contains formal modifications and clarifications of existing standards. Each of the amendments shall be applicable for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. More specifically, the following standards were amended:
  - “IAS 12 – Income Taxes”; the amendments clarify that an entity shall recognise the income tax consequences of dividends (as defined in IFRS 9) when it recognises a liability to pay a dividend, in profit or loss, other comprehensive income, or equity, depending on where the past transactions that generated distributable profits were recognised.

The Company assessing the potential impact of the future application of the new provisions.

Changes in accounting policies and disclosures

IFRS 9 adoption

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments:

- classification and measurement;
- impairment; and
- hedge accounting.

The Company applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, except for hedge accounting.

The cumulative effects of initially applying IFRS 9, associated with "Classification and measurement" and "Impairment", are recognised at the date of initial application as an adjustment to the opening balance of equity reserves. Accordingly, the comparative information (for year 2017) has not been restated.

Starting from 1 January 2018, the Company elected to early adopt and apply retrospectively the amendments "Prepayment features with negative compensation", requiring in the event of a modification (or an exchange) of a financial liability that does not result in the derecognition, that the new cash flows are discounted using the original effective interest rate and the difference between the pre-modification carrying amount of the liability and the new value is recognized through profit or loss as of the date of the modification.

The Company adopted the new Hedge accounting model provided by IFRS 9 prospectively, with the exception of the option of separating the currency basis spreads from the hedge relationship, which the Company opted to apply retrospectively.

Classification and measurement

The following table summarises the impacts, net of tax, of transition to IFRS 9 on the opening balances as at 1 January 2018:

Millions of euro	Impact of adopting IFRS 9 on opening balance	Reference
Retained earnings		
Recognition of expected credit losses under IFRS 9	(92)	[A]
Modification of financial liabilities	128	[B]
Related tax	(9)	
Impact at 1 January 2018	27	
Cost of hedging reserve		
Cumulative change in currency basis	278	[C]
Related tax	(72)	
Impact at 1 January 2018	206	

[A] Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of Euro 92 million in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The impairment allowance under IAS 39 was nil.

[B] Financial liabilities have been adjusted as a consequence of the early adoption of the amendments to IFRS 9: "Prepayment features with negative compensation".

In particular, for the bonds exchanged in 2015 and 2016, the Company applied the accounting treatment generally recommended by the international best practice, in compliance with IAS 39, and did not recognized any income or costs through profit or loss as at the date of the contractual modifications, amortizing them over the residual life of the modified financial liability at the effective interest rate recalculated as at the date of the exchange.

As a result of the early application of these amendments, the bonds exchanged have been adjusted using the new method as at January 1, 2018, restating the opening balances, which involved an increase in Company shareholders' equity and a correspondent decrease in net financial debt of Euro 128 million.

[C] Hedge Accounting

IFRS 9 introduces also a new model of hedge accounting, with the aim to align the accounting with risk management and strategy and to apply a more qualitative and forward-looking approach in assessing hedge effectiveness.

The Company applied hedge accounting prospectively, except for currency basis spreads separated and excluded from the hedging relationship (so called "hedging costs"). At such regard, the separation has been applied retrospectively and fair value changes related to basis spread have been accumulated as a separate component of equity under Cost of hedging reserve. In practice, the reserve in other comprehensive income that contains the fair value of hedging instruments ("full" fair value) contains of two OCI reserves that report the "basis-free" fair value and the "basis spread element" (i.e. Cost of hedging reserve), respectively.

At the date of initial application, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships.

Under IAS 39, all gains and losses arising from the Company's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss when the hedged risk affect profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities, reconciling the related carrying amounts on transition to IFRS 9 on 1 January 2018:

Millions of euro	**IAS 39 carrying amount at Dec.31, 2017**	**Reclassific ation**	**Remeasure ment***	**IFRS 9 carrying amount at Jan.1, 2018**
Amortised cost				
Cash and cash equivalents				
Brought forward: Loans and receivables	310	(310)		
Reclassification/Remeasurement		310		
Carried forward: Amortised cost				310
Loans and other financial receivables				
Brought forward: Loans and receivables	29,543			
Reclassification/Remeasurement		(29,543)		
Carried forward: Amortised cost		29,543	(92)	29,451
Total amortised cost	**29,853**	**-**	**(92)**	**29,761**
Financial liabilities exchanged				
Brought forward:	(22,122)			
Reclassification/Remeasurement		22,122		
Carried forward:		(22,122)	129	(21,993)
Total amortised cost	**(22,122)**	**-**	**129**	**(21,993)**

Risk management

Market risk

Enel Finance International N.V., acting as a financial intermediary, provides the necessary resources to foreign operating Entities of the Group; the funding activity comprises direct access to the international capital markets. Therefore, Enel Finance International N.V. is exposed to interest rate and exchange rates risks, due to its net financial position.

In order to mitigate this risk, the Company employs financial derivative instruments such as interest rate swaps, currency forwards and cross currency interest rate swaps, that are negotiated both with Enel S.p.A. and on the market.

The fair value of a financial derivative is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.

The fair value of listed instruments is the market price at 31 December 2018. The fair value of over the counter (OTC) instruments is calculated with standard pricing models for each instrument typology.

The transactions compliant with IFRS 9 requirements can be designated as cash flow hedge, otherwise are classified as trading.

Interest rate risk

Interest rate risk is the risk born by an interest-bearing financial instrument due to variability of interest rates. The optimal debt structure results from the trade-off between reducing the interest rate exposure and minimizing the average cost of debt.

The Company is exposed to interest rate fluctuation both on liabilities and on assets.

Interest rate swaps are stipulated to mitigate the exposure to interest rates fluctuation, thus reducing the volatility of economic results. Through an interest rate swap, the Company agrees with a counterparty to exchange, with a specified periodicity, floating rate interest flows versus fixed rate interest flows, both calculated on a reference notional amount. In order to ensure effectiveness, all the contracts have notional amount, periodicity and expiry date matching the underlying financial liability and its expected future cash flows.

The notional amount of outstanding contracts is reported below.

Millions of euro	Notional amount	
	2018	2017
Interest rate derivatives:		
Interest rate swap	6,438	8,191
Total	**6,438**	**8,191**

For more details, please refer to the note 16 and 17.

At 31 December 2018, 1.71 % of gross long term debt towards third parties was floating rate (1.98 % at 31 December 2017). Taking into account interest rate derivatives designated as cash flow hedge considered effective pursuant to the IFRS – EU, gross long term debt is mostly fully hedged against interest rate risk.

Having both assets and liabilities indexed to floating rate indices, the sensitivity of the Company income statement to the fluctuation of interest rates depends upon its net long term financial position, please refer to the sensitivity table.

Interest rate risk sensitivity analysis

The Company performs sensitivity analysis by estimating the effects of changes in the level of interest rates on financial instruments portfolio. In particular sensitivity analysis measures the potential impact of market scenarios both on equity, for the hedging component of derivatives in cash flow hedge, and on income statement for all derivatives that do not qualify for hedge accounting and the portion of net long term floating-rate debt not covered by derivatives. The Company's assets and liabilities are accounted for at amortised costs, and not impacted by changes in the level of interest rates.

These scenarios are represented by parallel translation, measured in basis points (bps) in the interest rate yield curve at the reporting date. All other variables held constant, the Company's income and equity before tax is impacted as follows:

Thousands of euro

Interest rate risk sensitivity analysis		2018			
		Pre-tax impact on income		**Pre-tax impact on equity**	
	Interest Rates scenario	**increase**	**decrease**	**increase**	**decrease**
Change in interest expense related to long term gross floating-rate debt after hedging	25 bp	125	(125)	-	-
Change in interest expense related to floating-rate financial receivables after hedging	25 bp	11,064	(11,064)		
Change in Fair value of Derivative financial instruments not qualifying for hedge accounting	25 bp	(79)	79	-	-
Change in Fair value of Derivative Financial instruments designated as hedging instruments	25 bp	-	-	64,254	(64,254)

Thousands of euro

Interest rate risk sensitivity analysis		2017			
		Pre-tax impact on income		**Pre-tax impact on equity**	
	Interest Rates scenario	**increase**	**decrease**	**increase**	**decrease**
Change in interest expense related to long term gross floating-rate debt after hedging	25 bp	125	(125)	-	-
Change in Fair value of Derivative financial instruments not qualifying for hedge accounting	25 bp	(54)	54	-	-
Change in Fair value of Derivative Financial instruments designated as hedging instruments	25 bp	-	-	119,388	(119,388)

Exchange rate risk

Exchange rate risk is a type of risk that arises from the change in price of one currency against another. The Company exposure to such risk is mainly due to foreign currencies denominated flows, originated by financial assets and liabilities.

In order to mitigate this risk, the Company enters into plain vanilla transactions such as currency forwards and cross currency interest rate swaps. In order to ensure effectiveness, all the contracts have notional amount and expiry date matching the underlying expected future cash flows.

Cross currency interest rate swaps are used to transform a long-term fixed – or floating – rate liability in foreign currency into an equivalent fixed – or floating – rate liability in euro, while currency forwards are used to hedge commercial papers and intercompany loans.

Millions of euro	Notional amount	
	2018	2017
Foreign exchange derivatives:		
Currency forwards:	3,445	4,784
Cross currency interest rate swaps	17,855	12,212
Total	**21,300**	**16,996**

For more details, please refer to the note 16 and 17.

Foreign exchange risk sensitivity analysis

The Company performs sensitivity analysis by estimating the effects on financial instruments portfolio of changes in the level of exchange rates. In particular sensitivity analysis measures the potential impact of market scenarios both on equity, for the hedging component of cash flow hedges derivatives, and on income statement for those derivatives that do not qualify for hedge accounting and the portion of gross long-term foreign denominated debt not covered by derivatives.

These scenarios are represented by the 10% Euro appreciation/depreciation towards all foreign currencies in comparison with end of year level. All other variables held constant, the carrying value of the Company's assets and liabilities denominated in foreign currencies are impacted following the exchange rate scenario disclosed (10%), the Company's income and equity before tax is impacted as follows:

Thousands of euro

Foreign exchange risk sensitivity analysis		2018			
		Pre-tax impact on income		**Pre-tax impact on equity**	
-	**Exchange Rate scenario**	**Euro Appr.**	**Euro Depr.**	**Euro Appr.**	**Euro Depr.**
Change in Fair value of Derivative financial instruments not qualifying for hedge accounting	10%	262,140	(320,210)	-	-
Change in Fair value of Derivative Financial instruments designated as hedging instruments	10%	-	-	(1,555,682)	1,901,312

Thousands of euro

Foreign exchange risk sensitivity analysis		2017			
		Pre-tax impact on income		**Pre-tax impact on equity**	
-	**Exchange Rate scenario**	**Euro Appr.**	**Euro Depr.**	**Euro Appr.**	**Euro Depr.**
Change in Fair value of Derivative financial instruments not qualifying for hedge accounting	10%	262,140	(320,210)	-	-
Change in Fair value of Derivative Financial instruments designated as hedging instruments	10%	-	-	(1,488,131)	1,818,861

Credit risk

The Company's financial operations expose it to credit risk, i.e. the possibility that a deterioration in the creditworthiness of a counterparty has an adverse impact of the expected value of the creditor position or, for trade payables only, increase average collection items.

The exposure to credit risk is attributable to Lending and hedging transactions.

Enel Finance International N.V. is part of the centralising financial flow process and acts as the primary reference for the management of financial needs or liquidity generated by Enel Group entities. The

Company manages its lending operations to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Finally, with regard to derivative transactions, risk mitigation is pursued with a uniform system for assessing counterparties, as well as with the adoption of specific risk mitigation clauses (e.g. netting arrangements) and possibly the exchange of cash collateral.

The Company's maximum exposure to credit risk for the components of the Balance Sheet at 31 December 2018 and 2017 is the carrying amounts as illustrated in Note 6, 9 and 10.

Credit risk mesurement

The Expected Credit Loss (i.e. ECL), determined considering Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), is the difference between all contractual cash flows that are due in accordance with the contract and all cash flows that are expected to be received (i.e., all short falls) discounted at the original EIR.

EAD is established on a quarterly basis using outstanding exposure data. PD and LGD are determined at leastannualy.

Probability of Default (PD) indicates the likelihood that a counterparty will default within one-year time horizon.

The Company defines a default to have occurred when:

- the counterparty is overdue by more then 90 days; or
- the Company considers the borrower to be unlikely to meet its contractual obligations;
- besides mandatory triggers, judgmental triggers also apply.

The PD is estimated mainly in relation to the creditworthiness of each counterparty. The Company computes the PD as the average of the PD provided by the major rating agencies (e.g. Standard & Poor's, Moody's) for each credit score, updated on yearly basis. Internal methodology to assess the creditworthiness considers qualitative and quantitative information in order to reflect possible future events and macroeconomic scenarios, which may affect the risk of the portfolio or the financial instrument.

Rating	Moody's PD %	Standard&Poors PD%	PD%
Aaa/AAA	0	0	0
Aa1/AA+	0	0	0
Aa2/AA	0	0.02	0.01
Aa3/AA-	0.05	0.03	0.04
A1/A+	0.07	0.05	0.06
A2/A	0.05	0.06	0.06
A3/A-	0.06	0.07	0.07
Baa1/BBB+	0.13	0.11	0.12
Baa2/BBB	0.17	0.17	0.17
Baa3/BBB-	0.25	0.25	0.25
Ba1/BB+	0.45	0.34	0.4
Ba2/BB	0.74	0.56	0.65
Ba3/BB-	1.43	1	1.22
B1/B+	2.09	2.08	2.09
B2/B	3.11	3.6	3.36
B3/B-	5.15	7.15	6.15

Exposure at Default (EAD) estmates the expected exposure at the time of a counterparty default and containes the carrying exposure at the reporting date net of eventual cash deposits obtained as guarantees or, in some cases, as the amortized cost

Loss Given Default (LGD) consider each specific exposure at default, date of default, guarantee and deposit information, recovery rate (portfolio or benchmark), credit insurance and legal/post default classification details.

The Company uses qualitative triggers to determine whether a financial instrument should be classified as stage 1 or stage 2. The Company is watching the status of borrower and the instruments is transferred from stage 1 to stage 2 if the credit risk increases and there is a significant past due. A transef to stage 3 will always be the result of default of the financial instrument.

The following table provides information about the exposure to credit risk and ECL, measured on an individual basis, for financial assets subject to impairment other than trade receivables and contract assets:

Millions of euro			**Dec. 31, 2018**		
Staging	Basis for recognition of expected credit loss provision	Weighted average expected credit loss rate (PD*LGD)	Gross carrying amount	Impairment loss allowance	Net amount
Performing	12 m ECL	0.14%	32,545	47	32,498
Underperforming	Lifetime ECL	-	-	-	-
Non-performing	Lifetime ECL	-	-	-	-
Total			**32,545**	**47**	**32,498**

The table below reports the movement in expected credit loss that has been recognized for financial assets measured at amortised cost

Impairment allowance as at Dec. 31, 2017	**0**
Recognition of expected credit losses under IFRS 9 as at Jan.1, 2018	(92)
Impairment losses recognised in profit or loss	(20)
Reversal of impairment losses in profit or loss	68
Other changes	(3)
Impairment allowance as at Dec 31., 2018	**(47)**

Liquidity risk

Liquidity risk manifests itself as uncertainty about the Company's ability to discharge its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company manages liquidity risk by implementing measures to ensure an appropriate level of liquid financial resources minimizing the associated opportunity cost and maintaining a balanced debt structure in terms of its maturity profile and funding sources.

In the short term, liquidity risk is mitigated by maintaining an appropriate level of unconditionally available resources.

In the long term, liquidity risk is mitigated by maintaining a balanced debt maturity profile for our debt, access to a range of resources of funding sources on different markets, in different currencies and with different counterparties.

The mitigation of liquidity risk enables the Company to maintain a credit rating that ensures access to the capital market and limits the cost of funds, with a positive impact on its performance and financial position.

The Company holds the following undrawn lines of credit

Millions of euro	**at Dec. 31, 2018**		at Dec. 31, 2017	
	Expiring within one year	**Expiring beyond one year**	Expiring within one year	Expiring beyond one year
Committed credit lines		5,000		5,000
Commercial paper	4,546		5,020	
Total	4,546	5,000	5,020	5,000

Furthermore, Enel S.p.A. has confirmed through a letter dated 13 February 2019 its commitment to explicitly provide the Company with the financial support until the date of approval of full year 2019 financial statements of the Company.

Maturity analysis

The table below summarizes the maturity profile of the Company's long-term debt on contractual undiscounted payments.

	Maturing in					
Millions of Euro	**2019**	**2020**	**2021**	**2022**	**2023**	**Beyond**
Bond						
Listed Bond (Fixed rate)	589	1,130	961	2,478	1,272	10,489
Listed Bond (Floating rate)	15	15	15	165	160	157
Unlisted Bond (Fixed rate)	545	545	545	2,341	2,674	13,527
Total Bond	**1,149**	**1,690**	**1,521**	**4,984**	**4,106**	**24,172**

Notes to the financial statements

1 Result from operating activities – Euro (3) million

Result from operating activities is negative for Euro 3 million in line with the previous year and refer to services (mainly related to legal and consultancy charges) for Euro 2 million and to personnel costs for Euro 1 million.

2 Financial income/ (expense) other than from derivatives – Euro (177) million

Millions of euro			
	2018	2017	Change
Financial income:			
Interest income			
- interest income on long-term financial assets	987	978	9
- interest income on short-term financial assets	186	116	70
Total interest income	1,173	1,094	79
Positive exchange rate differences	325	1,379	(1,054)
Total finance income other than from derivatives	**1,498**	**2,473**	**(975)**
Financial expense:			
Interest expense			
- interest expense on borrowings	(84)	(108)	24
- interest expense on bonds	(1,041)	(1,076)	35
- interest expense on commercial papers	8	2	6
Total interest expense	(1,117)	(1,182)	65
Impairment of financial assets	48		48
Negative exchange rate differences	(606)	(546)	(60)
Total financial expense other than from derivatives	**(1,675)**	**(1,728)**	**53**
Net financial income/ (expense) other than from derivatives	**(177)**	**745**	**(922)**

Interest income from assets amounted to Euro 1,173million on 31 december 2018, an increase of Euro 79 million on 31 December 2017 with the variation mainly attributed to interest income from Enel subsidiaries and affilates incorporated in Mexico (Euro 66 million), in Brazil (Euro 36 million), in USA (Euro 5 million) and in Italy (Euro 7 million). The above mentioned increase was partly offset by interest income decrease from Enel subsidiaries and affilates incorporated Spain (Euro 25 million), Greece (Euro 5 million) and Chile (Euro 5 million).

Interests expenses on financial debt totaled Euro 1,117 million decreased by Euro 65 million mainly due to:

- higher interest accrued in 2017 due to execution of a make whole option (Euro 108 million);

- recognition in 2017 of the residual amount of amortised prepaid expenses devoted to old agreement with Mediobanca (Euro 23 million) and decrease interest expenses;

- decrease of interest attributed to the bonds repaid in 2017 and 2018 (Euro 142 million)

- negative interest charges received from the on Commercial Paper (Euro 6 million)

This decrease was partly offset by:

- interests expenses attributed to issuance made in 2018 and 2017 (Euro 195 million)

- higher amortised costs due to the recalculation under IFRS 9 (Euro 14 million)

- increase of interests and fees paid to Group companies due to lower amount of borrowed facilities (Euro 5 million);

The net foreign exchange loss increased by Euro 1,114 million and totaled to Euro 281 million They consisted of: the negative revaluation of the bonds denominated in foreign currencies (Euro 470 million) and positive foreign currency evaluation of non-euro group portfolio (Euro 189million).

The amount of the foreign exchange losses Euro 473 million arisen from the revaluation of bonds above mentioned is entirely neutralized by the same amount recycled to the Cash Flow Hedge equity reserve.

The following table shows impairment losses recognised and reversed during the period.

Millions of euro

	2018	2017	Change
Impairment losses:			
Long-term loans and financial receivables (including current portion)	(8)	-	(8)
Short-term loans and financial receivables	(12)	-	(12)
Total impairment losses	**(20)**	**-**	**(20)**
Reversals of impairment losses:			
Long-term loans and financial receivables (including current portion)	31	-	31
Short-term loans and financial receivables	37	-	37
Total reversals of impairment losses	**68**	**-**	**68**
Total impairment	**48**	**-**	**48**

Reversal of impairment is mainly attributed to the repayment of long-term loans and change in structure of short-term revolving credit lines and loans granted to Enel Group Companies.

3. Financial income/(expense) from derivatives –Euro 337 million

Millions of euro

	2018	2017	Change
Financial income from derivatives:			
- income from cash flow hedge derivatives	704	567	137
- income from derivatives at fair value through profit or loss	607	588	19
Total finance income from derivatives	**1,311**	**1,155**	**156**
Financial expense from derivatives:			
- expense from cash flow hedge derivatives	(110)	(1,651)	1,541
- expense from derivatives at fair value through profit or loss	(864)	(351)	(513)
Total financial expense from derivatives	**(974)**	**(2,002)**	**1,028**
Net income/(expense) from derivatives	**337**	**(847)**	**1,184**

Net income/ (expenses) from cash flow hedge derivatives totaled to negative Euro 594million (as compared with Euro (1,084) million in 2017). The improvement of Euro 1,678 million comparing with the previous period is mainly due to gain and losses on these derivatives recycled to profit and loss.

Net income/ (expenses) from derivatives at fair value through profit and loss decreased by Euro 494 million mainly due to decrease of realised losses (Euro 414 million) and decrease of change in fair value (Euro 80 million).

For more detail about derivative financial instruments, please refer to the note 16 and 17.

4 Income tax (income)/expenses – Euro 58 million

Millions of euro

	2018	2017	Change
Profit before income taxes	157	(106)	263
Withholding tax on foreign interests	23	21	2
Curent income tax	20	-	20
Deferred tax assets	15	(31)	46
Income taxes	**58**	**(10)**	68
Effective tax rate	*37%*	*9%*	

The following table reconciles the theoretical tax rate with the effective tax rate.

Millions of euro

	2018	2017	Change
Accounting profit before income tax	157	(106)	263
Tax rate applicable	25%	25%	
Theoretical tax expense	**39**	**(27)**	**66**
Adjustments in respect of current income tax of previous years	2	1	1
Withholding tax deduction	(6)	(5)	(1)
Whithholding tax paid abroad	23	21	2
Total	**58**	**(10)**	**68**

The Company is negotiating an Advanced Pricing Agreement with the Dutch tax authorities in which it agreed both the transfer pricing method and the remuneration for its intergroup financing activities. The agreement will cover 5 year period starting from 2017.

5 Deferred tax assets (liabilities) – Euro 311 million

Changes in deferred tax assets and deferred tax liabilities, grouped by type of temporary difference, are shown below.

Millions of euro

	at Dec. 31, 2017	Impact of adopting IFRS 9 on opening balance	Increase/ (Decrease) taken to income statement	Increase/ (Decrease) taken to equity	Impact of tax rate decrease taken to income statemen	Impact of tax rate decrease taken to equity	**at Dec. 31, 2018**
Deferred tax asset							
Nature of temporary differences:							
- derivatives	309		(1)	59		(65)	302
- losses with deferred deductibility	32		(7)		(3)		22
Total deferred tax assets	**341**	**0**	**(8)**	**59**	**(3)**	**(65)**	**324**
Deferred tax liability ***Nature of temporary differences:***							
- measurement of financial instruments		(9)	(7)		3		(13)
Total deferred tax liabilities	**-**	**(9)**	**(7)**	**-**	**3**	**-**	**(13)**

At 31 December 2018 deferred tax assets in amount of Euro 324 million decreased by Euro 17 million following the reduction of Dutch corporate income tax rate (Euro 68 million) and absorbation of prior tax losses (Euro 8 million), partly offset by increase of deferred tax asset connected with the fair value measurement of cash flow hedge operations (Euro 59 million).

Deferred tax liabilities totaled Euro13 million due essentially to the recognition of deferred taxes on expected credit losses and modification of financial liabilities.

On a basis of current estimates of future taxable income there is a reasonable certainty of recoverability of deferred tax assets.

6 Long-term loans and financial receivables including portion falling due within twelve month – Euro 23,462 million

Following table represents to medium long-term loans granted to Enel Group companies:

Millions of Euro

	at Dec. 31, 2017	at Dec. 31, 2016	Change
	at Dec. 31, 2018	at Dec. 31, 2017	Change
Loan receivable from E-Distribuzione S.p.A.	5,500	5,500	-
Loan receivable from Enel S.p.A.	4,141	1,200	2,941
Loan receivable from Endesa SA	3,000	3,000	-
Loan receivable from Enel Green Power S.p.A.	2,242	1,677	565
Loan receivable from Enel Produzione S.p.A.	2,000	2,000	-
Loan receivable from Parque Eólico Renaico SpA	562	537	25
Loan receivable from Slovak Power Holding BV	245		245
Loan receivable from Energía Limpia de Palo Alto S de RL de Cv	150	98	52
Loan receivable from Enel Green Power Hellas SA	140	150	(10)
Loan receivable from PH Chucas SA	100	107	(7)
Loan receivable from Enel Sole S.r.l.	100	100	-
Loan receivable from Energías Renovables La Mata SAPI de Cv	97	100	(3)
Loan receivable from Parque Salitrillos SA de Cv	66	-	66
Loan receivable from Energia Limpia de Amistad S de RL de CV	63	-	63
Loan receivable from Enel Green Power Panama SA	43	45	(2)
Loan receivable from Dominica Energía Limpia S de RL de Cv	41	82	(41)
Loan receivable from Vientos del Altiplano S de RL de Cv	27	81	(54)
Loan receivable from Villanueva Solar SA de CV	43	-	43
Loan receivable from Parque Solar Villanueva Tres SA de CV	30	-	30
Loan receivable from Parque Solar Don Jose SA de CV	21	-	21
Loan receivable from Enel Green Power México S de RL de Cv	18	26	(8)
Loan receivable from Kalenta SA	17	19	(2)
Loan receivable from Enel X Korea Ltd	5	-	5
Loan receivable from Enel Iberia Srl	-	5,240	(5,240)
Loan receivable from Enel Green Power North America Inc	-	395	(395)
Loan receivable from Estrellada SA	-	38	(38)
Loan receivable from El Paso Solar SAS	-	2	(2)
Total loans to Enel Group Entities	**18,651**	**20,397**	**(1,746)**
Expected credit loss	(22)	-	(22)
Total loans net of impairent	**18,629**	**20,397**	**(1,768)**

Short-term portion of long-term loans represented in the table below:

Millions of euro	at Dec. 31, 2018	at Dec. 31, 2017	Change
Short-term portion of long-term loans granted to Enel Group Entities			
Loan receivable from Enel Iberia Srl	4,754	-	4,754
Loan receivable from El Paso Solar SAS	43	-	43
Loan receivable from PH Chucas SA	12	12	-
Loan receivable from Enel Green Power México S de RL de Cv	9	9	-
Loan receivable from Energías Renovables La Mata SAPI de Cv	8	8	-
Loan receivable from Energía Limpia de Palo Alto S de RL de Cv	6	12	-6
Loan receivable from Enel Green Power Panama SA	5	4	1
Loan receivable from Kalenta SA	2	2	-
Loan receivable from Dominica Energía Limpia S de RL de Cv	-	10	(10)
Loan receivable from Vientos del Altiplano S de RL de Cv	-	10	(10)
Loan receivable from Estrellada SA	-	3	(3)
Total	**4,839**	**70**	**4,769**
Expected credit loss	(6)	-	(6)
Total loans net of impairent	**4,833**	**70**	**4,763**

The table below reports long-term financial receivables by currency and interest rate.

Millions of Euro	at Dec 31., 2018	at Dec 31., 2018	at Dec 31., 2017	
	Balance	Nominal value	Balance	Effective interest rate
Total Euro	*22,708*	*22,708*	*19,425*	*4.17%*
US dollar	782	782	1,042	7.15%
Total non-Euro currencies	*782*	*782*	*1,042*	
Total	**23,490**	**23,490**	**20,467**	

7. Derivatives – Euro (1,000) million

Derivative instruments refer to: (i) Cash flow hedge derivatives used by the Company to hedge the exchange rate and interest rate fluctuations of bonds and long-term loans or receivables; (ii) derivatives at fair value through profit and loss used by the Company to mitigate the loan interest rate fluctuations.

Millions of euro	Non Current		Current	
	at Dec 31., 2018	at Dec 31., 2017	at Dec 31., 2018	at Dec 31., 2017
Derivative financial assets	141	28	31	79
Derivative financial liabilities	(1,145)	1,290	(27)	36

For more details about the nature, the recognition and classification of derivative financial assets and liabilities, please refer to the note 17.

8 Other non-current financial assets – Euro 11 million

Other non-current financial assets totaled Euro 11 million as at 31 December 2018 (Euro 13 million as at 31 December 2017) is essentially accounted for by transaction costs on Euro 10 billion revolving credit facility agreed on December 18, 2017 between Enel SpA, Enel Finance International N.V. and Mediobanca. The cange of Euro 2million reflects the transaction costs for this facility.

9 Short-term loans and financial receivables – Euro 9,036million

The following table shows the breakdown of the short-term loans granted to Enel Group affiliated companies:

Millions of euro

	at Dec. 31, 2018	at Dec. 31, 2017	Change
Short-term loans granted to Enel Group Entities			
Enel S.p.A. - Financial Services Agreement	1,931	2,480	(549)
Loan with Enel Brazil SA	2,117	-	2,117
Revolving short-term facility agreement with Enel Green Power S.p.A.	2,000	1,800	200
Revolving short-term facility agreement with Enel Produzione S.p.A.	1,300	1,500	(200)
Revolving short-term facility agreement with Villanueva Solar SA de Cv	205	259	(54)
Revolving short-term facility agreement with Enel Trade S.p.A.	200	500	(300)
Revolving short-term facility agreement with Enel Green Power Perú SA	184	81	103
Revolving short-term facility agreement with Proyecto Solar Villanueva Tres S.A. de C.V.	169	206	(37)
Revolving short-term facility agreement with Proyecto Solar Don José, S.A. De C.V.	155	146	9
Revolving short-term facility agreement with ENEL X	150	206	(56)
Revolving short-term facility agreement with Enel Green Power México S de RL de Cv	134	48	86
Revolving short-term facility agreement with Enel Green Power Hellas Sa	115	115	0
Loan with ELETROPAULO	95	-	95
Loan with COMPANHIA ENERGETICA	68	-	68
Revolving short-term facility agreement with Enel Green Power RSA	67	28	39
Revolving short-term facility agreement with EPM EOLICA DOLORES S	34	-	34
Revolving short-term facility agreement with PARQUE AMISTAD II SA	22	-	22
Revolving short-term facility agreement with Enel Green Power Bulgaria EAD	14	18	(4)
Revolving short-term facility agreement with PARQUE AMISTAD IV SA	13	-	13
Revolving short-term facility agreement with E-Distribuzione S.p.A.		1,000	(1,000)
Revolving short-term facility agreement with OpEn Fiber S.p.A.		220	(220)
Revolving short-term facility agreement with Dominica Energía Limpia S de RL de Cv		167	(167)
Revolving short-term facility agreement with Enernoc Inc		159	(159)
Revolving short-term facility agreement with Energía Limpia de Amistad S de RL de Cv		97	(97)
Revolving short-term facility agreement with Parque Salitrillos SA de Cv		19	(19)
Other short term loans granted to Enel Group affiliates	82	27	55
Total short term loans granted to Enel Group affiliates	**9,055**	**9,076**	**(21)**
Expected credit loss	(19)	-	(19)
Total loans net of impairment	**9,036**	**9,076**	**(40)**

Millions of Euro	at Dec. 31, 2018	at Dec. 31, 2018	at Dec. 31, 2017	
	Balance	Nominal value	Balance	Effective interest rate
Total Euro	*5,569*	*5,569*	*7,635*	*0.69%*
US dollar	1,118	1,118	1,413	6.50%
British pound	9	9	-	4.11%
Canadian dollar	10	10	-	4.31%
South African rand	67	67	28	8.75%
Romanian leu	2	2	-	5.57%
Brazilian Real	2,280	2,280	-	7.65%
Total non-Euro currencies	*3,486*	*3,486*	*1,441*	
Total	**9,055**	**9,055**	**9,076**	

The table below reports the short-term financial instruments granted to the Enel Group companies:

Millions of Euro	Financial relationship	Commitment amount until Dec.31, 2018	Rate of Interest	Spread until Dec. 31, 2018	Commitment fee until Dec. 31, 2018
Enel Green Power Bulgaria EAD	Revolving credit facility	15	3M Euribor	1.30%	35% of the margin
Enel Green Power Hellas SA	Revolving credit facility	131.6	3M Euribor	2.80%	35% of the margin
Enel Green Power S.p.A.	Revolving credit facility	2,000	3M Euribor	0.40%	35% of the margin
Enel Produzione S.p.A.	Revolving credit facility	1.5	3M Euribor	0.79%	35% of the margin
Enel Trade S.p.A.	Revolving credit facility	800	3M Euribor	1.74%	35% of the margin
Millions of USD					
Enel Green Power El Paso	Revolving credit facility	20	3M US Libor	2.25%	35% of the margin
Enel Green Power Colombia	Revolving credit facility	6	3M US Libor	1.90%	35% of the margin
EPM Eolica Dolores SA DE CV	Revolving credit facility	110	3M US Libor	4.70%	35% of the margin
EGP Magdalena Solar SA DE CV	Revolving credit facility	50	3M US Libor	4.70%	35% of the margin
Enel Green Power Mexico S.A.	Revolving credit facility	400	3M US Libor	2.70%	35% of the margin
Kino Contractor SA DE CV	Revolving credit facility	20	3M US Libor	4.70%	35% of the margin
Proveedora de Electricidad de Occidente S de RL de Cv	Revolving credit facility	15	3M US Libor	4.61%	35% of the margin
Parque Amistad II SA DE CV	Revolving credit facility	115	3M US Libor	4.70%	35% of the margin
Parque Amistad III SA DE CV	Revolving credit facility	70	3M US Libor	4.70%	35% of the margin
Parque Amistad IV SA DE CV	Revolving credit facility	90	3M US Libor	4.70%	35% of the margin
Enel Rinnovable SA DE CV	Revolving credit facility	20	3M US Libor	4.70%	35% of the margin
Parque Solar Don Jose SA de CV	Revolving credit facility	177	3M US Libor	3.50%	35% of the margin
Villanueva Solar SA de CV	Revolving credit facility	234	3M US Libor	3.50%	35% of the margin
Parque Solar Villanueva Tres SA de CV	Revolving credit facility	193	3M US Libor	3.50%	35% of the margin
Enel Green Power Gene Solar	Revolving credit facility	5	3M US Libor	4.20%	35% of the margin
Enel Green Power Panama S.A.	Revolving credit facility	15	3M US Libor	2.80%	35% of the margin
Enel Green Power Peru S.A.	Revolving credit facility	225	3M US Libor	4.10%	35% of the margin
Enel X North America INC	Revolving credit facility	175	3M US Libor	2.85%	35% of the margin

Millions of RON	Financial relationship	Commitment amount until Dec.31, 2018	Rate of Interest	Spread until Dec. 31, 2018	Commitment fee until Dec. 31, 2018
Enel Trade Romania SRL	Revolving credit facility	10	3M RON RBOR	1.80%	35% of the margin
Millions of CAD					
EGP Canada INC	Revolving credit facility	70	3M CAD CDOR	2.00%	35% of the margin
Millions of ZAR					
EGP RSA PTY LTD	Revolving credit facility	1.800	3M ZAR JIBAR	1.60%	35% of the margin
Millions of GBP					
Tynemouth Energy Storage LTD	Revolving credit facility	11	3M GBP LIBOR	2.00%	35% of the margin

10 Other current financial assets – Euro 1,230 million

Millions of euro

	at Dec. 31, 2018	at Dec. 31, 2017	Change
Cash collateral on derivatives	955	530	425
Current financial accrued income	258	174	83
Other current financial receivables	18	1	17
Total other current financial assets	**1,230**	**705**	526

While other current financial assets are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

11 Cash and cash equivalents – Euro 101 million

Cash and cash equivalent represent the cash availability deriving by the turnover of lending portfolio of the Company, temporary not invested in lending activities within Enel Group and placed in time deposits operations with primary bank counterparties.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Cash balances are mostly denominated in euro. Cash balances are not restricted by any encumbrances.

12 Shareholder's equity – Euro 1,745million

Share capital – Euro 1.479 million

The authorized share capital of the company amounts to Euro 2.500 million, divided into 2.500 million of shares, each share with a nominal value of Euro 1,0 each.

The issued and paid-up share capital amounts to Euro 1.478,8 million represented by 1.478.810.371 shares with nominal value of Euro 1,0 each increased by 1 share as a result of demerger of Enel Green Power International B.V.

Legal reserves includes reserves such as share premium reserve, reserve from effective portion of change in the fair value of cash flow hedges and reserve from cost of hedging.

<u>Share premium reserve (legal reserve)</u> – Euro 1,026 million

The reserve arises from the cross-border merger finalized during 2010 between Enel Finance International S.A. and Enel Trading RUS B.V. (Euro 43 million) and demerger of net assets from Enel Green Power International B.V. in October 2016 (Euro 983 million).

<u>Reserve from effective portion of change in the fair value of cash flow hedges (legal reserve)</u> – Euro (1,014) million

The reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions. Deferred taxes attributed to this reserve totaled to Euro 262 million. For more details about the nature, the recognition and classification of derivative financial assets and liabilities, please refer to the note 17.

<u>Reserve from cost of hedge (legal reserve) – Euro (154) million</u>

The reserve includes the "basis spread element" of the fair value of hedging instruments. As at 31 December 2018 the "basis spread element" totaled to Euro 194 million comparing with Euro 278 as at 1 January 2018. Deferred taxes attributed to this reserve totaled to Euro 40 million (as at 1 January 2018: Euro 70 million). For more details please refer to the note 17.

<u>Capital Management</u>

It is policy of the Company to maintain a strong capital base to preserve creditors and market confidence and so sustain future development of the business. The Board of Directors monitors the return on capital that the Company defines as total shareholder's equity, and the level of dividends to ordinary shareholders.

The return of capital is calculated as a percentage of financial result on total equity net of cash flow hedge reserve excluded in this key performance indicator because Company's management preferred to exclude evaluation equity reserves which might be quite volatile over the periods:

Millions of euro

	at Dec. 31, 2018	**at Dec. 31, 2017**
Total Equity	1,745	1,863
Cash flow hedge reserve	(1,168)	(924)
Adjusted equity	2,913	2,787
Net financial result	99	(96)
Return of capital (*)	**2%**	**2%**

* Key Performance Indicator determined on a yearly basis.

The Board's objective is to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Company's approach to capital management during 2018. The Company is not subject to externally imposed capital requirements.

Proposal for net result appropriation

The Board of Directors proposes to the Shareholder the allocation of the net result of the year 2018 to the Company's retained earnings.

13 Long-term loans and borrowings (including the portion falling due within twelve months for Euro 1,439 million) – Euro 25,591 million

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk see paragraph *"Risk management"*.

The aggregate includes long-term payables in respect of bonds, bank loans, revolving credit facility and other loans in Euro and other currencies.

The following table shows the nominal values, carrying amounts of long-term debt at 31 December 2018, including the portion falling due within 12 months, grouped by type of borrowing and type of interest rate:

Millions of Euro

	Balance	Nominal value	Portion falling due after more than 12 months	Current portion	Balance	Nominal value	Portion falling due after more than 12 months	Current portion
	at Dec.31 2018	**at Dec.31 2018**	**at Dec.31 2018**	**at Dec.31 2018**	at Dec.31 2017	at Dec.31 2017	at Dec.31 2017	at Dec.31 2017
Bond								
Listed Bond (Fixed rate)	12,387	12,963	12,262	125	12,802	13,309	11,363	1,439
Listed Bond (Floating rate)	446	450	446	-	446	450	445	-
Unlisted Bond (Fixed rate)	12,758	12,860	12,758	-	8,874	8,948	8,874	-
Total Bond	**25,591**	**26,273**	**25,466**	**125**	**22,122**	**22,707**	**20,682**	**1,439**

The table below reports long-term financial debt by currency and interest rate.

Millions of Euro

	at Dec.31 2018	**at Dec.31 2018**	at Dec.31 2017	**at Dec.31 2018**	
	Balance	Nominal value	Balance	Current average interest rate	Effective interest rate
Total Euro	*10,135*	*10,698*	*10,004*	**3.19%**	**4.09%**
US dollar	12,563	12,658	8,688	4.28%	4.46%
British pound	2,490	2,514	2,510	5.70%	5.82%
Swiss Franc	403	403	687	2.07%	2.10%
Japanese yen	-	-	233		
Total non-Euro currencies	*15,456*	*15,575*	*12,118*		
Total	**25,591**	**26,273**	**22,122**		

The table below reports changes in the nominal value of long-term debt during the year.

Millions of Euro

	Nominal value	New financing	Capitalised interests on ZCB	Repayments	Exchange rate differences	Nominal value
	at Dec.31 2017					**at Dec.31 2018**
Bonds in non-Euro currencies and Euro currency	22,706	4,681		(1,587)	473	26,273
Total long-term financial debt	**22,706**	**4,681**		**(1,587)**	**473**	**26,273**

Global Medium Term Programme

Issue of new green bond in Europe for Euro 1,250 million

On January 9, 2018 the Company successfully placed its second green bond on the European market. It is reserved for institutional investors and is backed by a guarantee issued by Enel.

The issue amounted to total of Euro 1,250 million and provided for repayment in a single instalment at maturity on September 16, 2026 and the payment of a fixed rate coupon equal to 1.125%, payable annually in arrears in the month of September as from September 2018. The issue price was set at 99.184% and the effective yield at maturity is equal to 1.225%

The net proceeds of the issue – carried out under Euro Medium-Term Notes Program – will be used to finance and/or to be identified in accordance with the "Green Bond Principles "published by the International Capital Market Association (ICMA).

US dollar-denominated bonds

On 12 September 2018 the Company placed a multi-tranche bond issue offered on the US and international markets for institutional investors for a total of 4 billion US dollars (equal to Euro 3,422 million)

The transaction is structured in the following tranches:

- 1,250 million USD at a fixed rate of 4.259% maturing in 2023;
- 1,500 million USD at a fixed rate of 4.625% maturing in 2025; and
- 1,250 million USD at a fixed rate of 4.875% maturing in 2029.

Bond repurchase

On 3 October 2018 the Company repurchased in cash the entire 20 billion JPY bond (equal to Euro148 million) following the exercise of the repurchase option.

The repurchase was being carried out as part of the strategy to optimize the structure of the Company's liabilities through active management of maturities and of cost of debt.

Debt covenants

The main long-term financial debts of the Company are governed by covenants containing undertakings by the borrowers (Enel S.p.A. and the Company) and by Enel S.p.A. as guarantor that are commonly adopted in international business practice. The main covenants for the Company are related to the bond issues carried out within the Euro / Global Medium-Term Notes Programme and the Revolving Facility Agreement executed on December 18, 2017 by Enel S.p.A. and the Company with a pool of banks of up to Euro 10 billion. To date none of the covenants have been triggered.

The main covenants in respect of the bond issues under the Global/Euro Medium-Term Notes program (including the Green Bonds of the Company guaranteed by Enel S.p.A., which are used to finance the Group's eligible green projects) and those related to the bonds issued by the Company on the US market guaranteed by Enel SpA can be summarized as follows:

- negative pledge clauses under which the issuer may not establish or maintain (except under statutory requirement) mortgages, liens or other encumbrances on all or part of its assets or revenues to secure any listed bond or bond for which listing is planned unless the same guarantee is extended equally or pro rata to the bonds in question;

- pari passu clauses, under which the securities constitute a direct, unconditional and unsecured obligation of the issuer and are issued without preferential rights among them and have at least the same seniority as other unsubordinated and unsecured obligations, present and future, of the issuer;

- specification of default events, whose occurrence (e.g. insolvency, failure to pay principle or interest, initiation of liquidation proceedings, etc.) constitutes a default;

- under cross-default clauses, the occurrence of a default event (above a threshold level) in respect of certain indebtedness of the issuer constitutes a default in respect of the bonds in question, which may become immediately repayable;

- early redemption clauses in the event of new tax requirements, which permit early redemption at par of all outstanding bonds.

The main covenants for the Revolving Facility Agreement involving the Company and Enel S.p.A. can be summarized as follows:

- negative pledge clause under which the borrower (and Enel S.p.A.'s significant subsidiaries) may not establish or maintain (with the exception of permitted guarantees) mortgages, liens or other encumbrances on all or part of their assets to secure certain financial indebtedness;

- pari passu clause, under which the payment obligation of the borrower have at least the same seniority as its other unsubordinated and unsecured payment obligations;

- change of control clause which is triggered in the event (i) control of Enel is acquired by one or more shareholders other than the Italian state or (ii) Enel or any of its subsidiaries transfer a substantial portion of the Group's assets to any other persons outside the Group such that the financial reliability of the Group is significantly compromised. The occurrence of one of the two circumstances may give rise to (a) the renegotiation of the terms and conditions of the facility or (b) compulsory early repayment of the facility by the borrower;

- specification of default events, whose occurrence (e.g. failure to make payment, breach of contract, misrepresentation, insolvency of the borrower or Enel S.p.A.'s significant subsidiaries, cessation of business, governmental intervention or nationalization, administrative proceeding with potential negative impact) constitutes a default of the facility. Unless remedied within a specified period of time, such default will trigger an obligation to make immediate repayment of the facility under an acceleration clause;

- under cross-default clause, the occurrence of a default event (above a threshold level) in respect of certain financial indebtedness of the borrower or Enel S.p.A.'s "significant" subsidiaries (i.e. consolidated companies whose gross revenues or total assets are at least equal to a specified percentage (10% of gross consolidated revenues or total consolidated assets)) constitutes a default in respect of the facility in question, which may become immediately repayable;

- disposals clause, under which the borrower (and Enel S.p.A.'s controlled subsidiaries) may not dispose of all or any material part of their assets or undertaking with the exception of permitted disposals.

14 Short-term loans and borrowings – Euro 5,387 million

Millions of Euro

	at Dec. 31, 2018	at Dec. 31, 2017	Change
Short-term loans from Enel Group companies	3,909	4,372	(463)
Commercial papers	1,454	980	474
Cash collaterals on derivatives	24		24
Short-term financial debt	**5,387**	**5,352**	**35**

Short-term loans

At 31 December 2018 short-term loans decreased by Euro 463 million from 31 December 2017.

Millions of Euro

	Original currency	**Euro countervalue at Dec. 31, 2018**	**Euro countervalue at Dec. 31, 2017**	**Change**
Intercompany Current Accounts denominated in Euro				
Enel Servizio Elettrico S.p.A.	Euro	2,470	2,559	(89)
Enel Investment Holding B.V.	Euro	5	1,085	(1,080)
Enel Iberia S.r.l.	Euro	122	100	22
Enel Energia S.p.A	Euro	1,000	500	500
Enel Green Power Chile	USD	-	65	(65)
Generadora Montecristo SA	USD, MXN	50	34	16
Enel Green Power Costa Rica SA	USD	5	8	(3)
Enel Green Power Canada Inc	CAD	-	8	(8)
Proveedora de Electricidad de Occidente S de RL de Cv	USD	193	5	188
Enel Green Power México S de RL de Cv	Euro	-	1	(1)
Erdwärme Oberland Gm	Euro	2	1	1
Enek Fortuna SA	USD	15	-	15
Kongul Energì Sanayive Tìcaret Anonìm S¸ìrket	TRY	-	-	0
Enel Green Power Romania Srl	Euro	43	-	43
Kavachik	TRY	3	4	(1)
Ovachik	TRY	1	2	(1)
Total		**3,909**	**4,372**	**(463)**

Commercial Papers

The payables represented by commercial papers relate to outstanding issuances at 2018 year-end in the context of the Euro Commercial Paper Programme (hereinafter, also “ECP Programme”), launched in 2005 by the Company and guaranteed by Enel S.p.A.

Under the ECP Programme the Company can issue short-term promissory notes issued in the interest-bearer form up to an amount of Euro 6.000 million. Each note can be denominated in any currency, with a minimum denomination of Euro 500.000 (or GBP 100.000, or USD 500.000, or JPY 100 million or its equivalent in the relevant currency) and a maturity between one day and one year. The notes may be issued on a discounted basis or may bear fixed or floating interest rate or a coupon calculated by reference to an index or formula, and are not listed on any stock exchange.

The total nominal value of commercial papers issued and not yet reimbursed as of 31 December 2018 was Euro 1,454 million (Euro 980 million at 31 December 2018).

Reconciliation of long term and short term movement with cash flow statement: issuance in 2018 totaled to Euro 4,681 million for long-term borrowings and Euro 474 million for short-term borrowings (in 2017 Euro 8,482 million for long-term borrowings). The repayments in 2018 totaled to Euro 1,587 million for long-term borrowings and 463 for short-term borrowings (in 2017: Euro 3,370 million and Euro 1,978 million respectively).

15 Other current financial liabilities – Euro 429 million

Other current financial liabilities increased by Euro 61 million and mainly related to interest expenses accrued on debt outstanding at 31 December 2018.

All payments are expected within 12 months.

16 Fair value measurement

The company measures fair value in accordance with IFRS 13 whenever required by international accounting standards.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability. The best estimate is the market price, i.e. its current price, publicly available and effectively traded on an active, liquid market.

The fair value of assets and liabilities is categorized into a fair value hierarchy that provides three levels defined as follows on the basis of the inputs to valuation techniques used to measure fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities to which the company has access at the measurement date;

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

In this note, the relevant disclosures are provided in order to assess the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements; and
- for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

For this purpose:

- recurring fair value measurements are those that IFRSs require or permit in the balance sheet at the end of each reporting period;
- non-recurring fair value measurements are those that IFRSs require or permit in the balance sheet in particular circumstances.

The fair value of derivative contracts is determined using the official prices for instruments traded on markets.

The fair value of instruments not listed on a market is determined using valuation methods appropriate for each type of financial instrument and market data as of the close of the period (such as interest rates, exchange rates, volatility), discounting expected future cash flows on the basis of the market yield curve and translating amounts in currencies other than the euro using exchange rates provided by the European Central Bank.

The notional amount of a derivative contract is the amount on which cash flows are exchanged. This amount can be expressed as a value or a quantity (for example tons, converted into euros by multiplying the notional amount by the agreed price).

Amounts denominated in currencies other than the euro are converted into euros at the exchange rate provided by the European Central Bank.

The notional amounts of derivatives reported here do not necessarily represent amounts exchanged between the parties and therefore are not a measure of the company's credit risk exposure.

For listed debt instruments, the fair value is given by official prices. For unlisted instruments the fair value is determined using appropriate valuation techniques for each category of financial instrument and market data at the closing date of the year, including the credit spreads of Enel Finance internation N.V.

Assets and liabilities measured at fair value in the financial statements

The following table shows the fair value measurement at the end of the reporting period and the level in the fair value hierarchy into which the fair value measurements are categorised:

Milions of euro	**Non Current**				**Current**			
	at Dec. 31, 2018	Level 1	**Level 2**	Level 3	**at Dec. 31, 2018**	Level 1	**Level 2**	Level 3
DERIVATIVE ASSETS								
Cash flow hedge								
on interest rate risk	11	-	11	-	-	-	-	-
on foreign exchange risk	116	-	116	-	1	-	1	-
Total	**127**	-	**127**	-	**1**	-	**1**	-
At fair value through profit or loss								
on interest rate risk	15	-	15	-	-	-	-	-
on foreign exchange risk	-	-	-	-	30	-	30	-
Total	**15**	**-**	**15**	**-**	**30**	**-**	**30**	**-**
TOTAL DERIVATIVE ASSETS	**141**	-	**141**	-	**31**	-	**31**	-
DERIVATIVE LIABILITIES								
Cash flow hedge								
on interest rate risk	248	-	248	-	-	-	-	-
on foreign exchange risk	880	-	880	-	18	-	18	-
Total	**1,128**	-	**1,128**	-	**18**	-	**18**	-
At fair value through profit or loss								
on interest rate risk	17	-	17	-	-	-	-	-
on foreign exchange risk	0	-	-	-	9	-	9	-
Total	**17**	-	**17**	-	**9**	-	9	-
TOTAL DERIVATIVE LIABILITIES	**1,145**	-	**1,145**	-	**27**	-	**27**	-

Millions of euro	Non Current				Current			
	at Dec. 31, 2017	Level 1	**Level 2**	Level 3	**at Dec. 31, 2017**	Level 1	**Level 2**	Level 3
DERIVATIVE ASSETS								
Cash flow hedge								
on interest rate risk	-	-	-	-	-	-	-	-
on foreign exchange risk	26	-	26	-	7	-	7	-
Total	**26**	-	**26**	-	**7**	-	**7**	-
At fair value through profit or loss								
on interest rate risk	2	-	2	-	-	-	-	-
on foreign exchange risk	-	-	-	-	71	-	71	-
Total	2	-	-	-	71	-	71	-
TOTAL DERIVATIVE ASSETS	**28**	-	**28**	-	**79**	-	**79**	-
DERIVATIVE LIABILITIES								
Cash flow hedge								
on interest rate risk	209	-	209	-	-	-	-	-
on foreign exchange risk	1,075	-	1,075	-	14	-	14	-
Total	**1,284**	-	**1,284**	-	14	-	14	-
At fair value through profit or loss								
on interest rate risk	6	-	6	-	-	-	-	-
on foreign exchange risk	-	-	-	-	22	-	22	-
Total	**6**	-	**6**	-	**22**	-	**22**	-
TOTAL DERIVATIVE LIABILITIES	**1,290**	-	**1,290**	-	**36**	-	**36**	-

Assets and liabilities not measured at fair value in the financial statements

The following table shows, for each class of liabilities not measured at fair value in the balance sheet but for which the fair value shall be disclosed, the fair value at the end of the reporting period and the level in the fair value hierarchy into which the fair value measurements are categorized.

For listed debt instruments, the fair value is given by official prices while for unlisted instruments the fair value is determined using appropriate valuation technique for each category of financial instrument and market data at the closing date of the year.

Milions of euro				
	at Dec. 31, 2018	Level 1	Level 2	Level 3
Financial assets at ammortized cost				
Medium/long-term financial receivables	26,020		26,020	
Short-term financial receivables	8,827		8,827	
Total	**34,847**		**34,847**	**-**
Borrowings:				
Bonds				
-fixed rate	26,859	26,859		
-floating rate	486	486		
-short-term loans from the Group	3,907		3,907	
Short-term borrowings at ammortized cost	1,425	1,425		
Total	**32,677**	**28,770**	**3,907**	

Level 2 includes financial assets/liabilities measured at fair value on the basis of the curve on the market for each currency and the exchange rate for the non-euro currency.

17 Hedging activities and derivatives

Derivatives are initially recognised at fair value, on the trade date of the contract and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Hedge accounting is applied to derivatives entered into in order to reduce risks such as interest rate risk, foreign exchange rate risk, commodity price risk and net investments in foreign operations when all the criteria provided by IFRS 9 are met.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy. The Comapany also documents its assessment, both at hedge inception and on an ongoing basis, of whether hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges of forecast transactions designated as hedged items, the Company assesses and documents that they are highly probable and present an exposure to changes in cash flows that affect profit or loss.

To be effective a hedging relationship shall meet all of the following criteria:

- existence of an economic relationship between hedging instrument and hedged item;
- the effect of credit risk does not dominate the value changes resulting from the economic relationship;
- the hedge ratio defined at designation resulting equal to the one used for risk management purposes (i.e. same quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge the quantity of the hedged item).

Based on the IFRS 9 requirements, the existence of an economic relationship is evaluated by the Company through a qualitatively assessment or a quantitatively computation, depending of the following circumstances:

- if the underlying risk of the hedging instrument and the hedged item is the same, the existence of an economic relationship will be provided through a qualitative analysis;
- on the other hand, if the underling risk of the hedging instrument and the hedged item is not the same, the existence of the economic relationship will be demonstrated through a quantitative method in addition to a qualitative analysis of the nature of the economic relationship (i.e. linear regression).

In order to demonstrate that the behaviour of the hedging instrument in line with those of the hedged item, different scenarios will be analysed

In order to evaluate the credit risk effects, the Company considers the existence of risk mitigating measures (collateral, mutual break-up clauses, netting agreements, etc.).

The Company has established a hedge ratio of 1:1 for all the hedging relationships (including commodity price risk hedging) as the underlying risk of the hedging derivative is identical to the hedged risk, in order to minimize hedging ineffectiveness.

The hedge ineffectiveness will be evaluated through a qualitative assessment or a quantitative computation, depending on the following circumstances:

- if the critical terms of the hedged item and hedging instrument match and there aren't other sources of ineffectiveness included the credit risk adjustment on the hedging derivative, the hedge relationship will be considered fully effective on the basis of a qualitative assessment;
- if the critical terms of the hedged item and hedging instrument do not match or there is at least one source of ineffectiveness, the hedge ineffectiveness will be quantified applying the dollar offset cumulative method with hypothetical derivative. This method compares changes in fair values of the hedging instrument and the hypothetical derivative between the reporting date and the inception date.

The main causes of hedge ineffectiveness may be the followings:

- basis differences (i.e. the fair value or cash flows of the hedged item depend on a variable that is different from the variable that causes the fair value or cash flows of the hedging instrument to change);
- timing differences (i.e. the hedged item and hedging instrument occur or are settled at different dates);
- quantity or notional amount differences (i.e. the hedged item and hedging instrument are based on different quantities or notional amounts);
- other risks (i.e. changes in the fair value or cash flows of a derivative hedging instrument or hedged item relate to risks other than the specific risk being hedged);
- credit risk (i.e. the counterparty credit risk differently impact the fair value movements of the hedging instruments and hedging item)

Cash flow hedge

Cash flow hedges are applied in order to hedge the Company exposure to changes in future cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction that could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the hedged forecast sale takes place).

If the hedged item results in the recognition of a non-financial asset (i.e. property, plant and equipment or inventories, etc.) or a non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the amount accumulated in equity (i.e. cash flow reserve) shall be removed and included in the initial value (cost or other carrying amount) of the asset or the liability hedged (i.e. "basis adjustment").

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

For hedging relationships using forward as hedging instrument, where only the change in the value of the spot element is designated as the hedging instrument, accounting for the forward element (P&L vs OCI) is defined case by case. This approach is actually applied by the Company for hedging of foreign currency risk on renewables assets.

Conversely, hedging relationships using cross currency basis spread as hedging instrument, the Company separates foreign currency basis spread, in designating the hedging derivative, and present them in other comprehensive income (OCI).

The following tables report the notional amount and fair value of derivative financial assets and liabilities by type of hedge relationship and hedged risk, broken down into current and non-current derivative financial assets and liabilities.

The notional amount of a derivative contract is the amounton the basis of which cash flows are exchanged. This amount can be expressed as a value or a quantity (for example tons, converted into euros by multiplying the notional amount by the agreed price). Amounts denominated in currencies other than the euro are converted at the end-year exchange rates provided by the European Central Bank.

Milions of euro	**Non Current**				**Current**			
	Notional amount		Fair value		Notional amount		Fair value	
	at Dec. 31, 2018	at Dec. 31, 2017	**at Dec. 31, 2018**	at Dec. 31, 2017	**31Dec 2018**	at Dec. 31, 2017	**at Dec. 31, 2018**	at Dec. 31, 2017
DERIVATIVE ASSETS								
Cash flow hedge								
on interest rate risk	833	-	11	-	-	-	-	-
on foreign exchange risk	5,005	234	116	26	162	299	1	7
Total	**5,838**	**234**	**127**	**26**	**162**	**299**	**1**	**7**
DERIVATIVE LIABILITIES								
Cash flow hedge								
on interest rate risk	4,650	8,091	248	209	-	-	-	-
on foreign exchange risk	10,571	11,594	880	1,075	2,117	85	18	-
Total	**15,221**	**19,685**	**1,128**	**1,284**	**2,117**	**85**	**18**	**-**

Impact of hedging derivatives on equity

The impact of the hedging instruments on the balance sheet is, as follows:

Millions of Euro	**Notional amount**	**Carrying amount**	**Line item in the statement of financial position**	**Fair value used for measuring ineffectiveness for the period**
As at Dec 31,2018				
Interest rate swap (IRS)	5,483	(240)	Derivatives	(226)
Cross currency interest rate swap (CCIRS)	17,855	(782)	Derivatives	(782)
As at Dec 31, 2017				
Interest rate swap (IRS)	8,091	(210)	Derivatives	(210)
Cross currency interest rate swap (CCIRS)	12,212	(1,057)	Derivatives	(1,057)

The impact of the hedged item on the balance sheet is, as follows:

Millions of Euro	2018			2017		
	Fair value used for measuring ineffectiveness	**Cash flow hegde reserve**	**Cost of hedging reserve**	**Fair value used for measuring ineffectiveness**	Cash flow hedge reserve	**Cost of hedging reserve**
Floating-rate borrowings	248	(237)	0	203	(203)	0
Floating-rate lendings	(11)	11	0	4	(4)	0
Fixed-rate borrowings in foreign currencies	782	(588)	(194)	1,057	(778)	(278)
Total	1,018	(814)	(194)	1,264	(986)	(278)

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income is:

Millions of Euro	**Total hedging gain/(loss) recognised in OCI**	**Ineffectiveness recognised in profit or loss**	**Line item in the statement of balance sheet**	**Cost of hedging recognised in OCI**	**Amount reclassified from OCI to profit or loss**	**Line item in the statement of profit or loss**
As at Dec 31, 2018						
Floating-rate borrowings	(26)	11	Derivatives			Financial expense from derivative
Floating-rate lendings	11		Derivatives			Financial expense from derivative
Fixed-rate borrowings in foreign currencies	190		Derivatives	84	(443)	Financial expense from derivative
As at Dec 31, 2017						
Floating-rate borrowings	(56)		Derivatives			Financial expense from derivative
Floating-rate lendings			Derivatives			Financial expense from derivative
Fixed-rate borrowings in foreign currencies	(1,419)		Derivatives	(278)	1,600	Financial expense from derivative

The following table reports the impact of cash flow hedge derivatives on equity during the period, gross of the fiscal impact:

Millions of Euro	**2018**				**2017**			
	Cost of hedging	**Gross changes in fair value recognized in equity**	**Gross changes in fair value transferred to income – Recycling**	**Gross changes in fair value transferred to income - Ineffectiveness**	**Cost of hedging**	**Gross changes in fair value recognized in equity**	**Gross changes in fair value transferred to income – Recycling**	**Gross changes in fair value transferred to income - Ineffectiveness**
Interest rate hedging		(15)		11		(56)		
Exchange rate hedging	84	190	(443)		(278)	(1,419)	1,600	
Hedging derivatives	**84**	**175**	**(443)**	**11**	**(278)**	**(1,475)**	**1,600**	

The amount of effective changes in the fair value of cash flow hedge derivatives, not yet settled, corresponding to hedges on the exchange rate on hedged items released in order to offset the adjustment at the spot exchange rate of the hedged assets/liabilities denominated in a foreign currency at the end of the reporting period totalled to Euro 465 million.

Hedge relationships by type of risk hedged

Interest rate risk

The following table reports the notional amount and fair value of the hedging instruments on interest rate risk of transactions outstanding as at 31 December 2018 and 31 December 2017, broken down by type of hedged item:

Millions of euro		Fair value	Notional amount	Fair value	Notional amount
Hedged instruments	**Hedged item**	**Dec 31, 2018**	**Dec 31, 2018**	Dec 31, 2017	Dec 31, 2017
Interest rate swaps	Floating-rate borrowings	(248)	4,650	(206)	7,400
Interest rate swaps	Floating-rate lendings	11	833	(4)	691
Total		**(237)**	**5,483**	**(210)**	**8,091**

The following table shows the notional amount and the fair value of hedging derivatives on interest rate risk as at 31 December 2018 and 31 December 2017, broken down by type of hedge:

Millions of euro	Notional amount		Fair value assets		Notional amount		Fair value liabilities	
Derivatives	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Interest rate swaps	833		11		4,650	8,091	248	210
Total interest rate derivatives	**833**	**0**	**11**	**0**	**4,650**	**8,091**	**248**	**210**

The following table shows the cash flows expected in coming years from cash flow hedge derivatives on interest rate risk:

Millions of euro	Fair value at Dec. 31 2018	Expected cash flows					
		2019	2020	2021	2022	2023	Beyond
Cashflow hedge derivatives:							
Positive Fair value derivatives	11	7	6	4	3	0	(7)
Negative fair value derivatives	(248)	(9)	(57)	(63)	(51)	(35)	(37)
Total Interest rate derivatives	**(237)**	**(2)**	**(51)**	**(59)**	**(48)**	**(35)**	**(44)**

Exchange rate risk

The following table shows the notional amount and the fair value of the hedging instruments on foreign exchange risk of transactions outstanding as at 31 December 2018 and 31 December 2017, broken down by type of hedged item:

Millions of euro		Fair value	Notional amount	Fair value	Notional amount
Hedged instruments	**Hedged item**	**Dec 31, 2018**	**Dec 31, 2018**	Dec 31, 2017	Dec 31, 2017
Cross currency interest rate swap (CCIRS)	Fixed-rate borrowings in foreign currencies	(782)	17,855	(1,057)	12,212
Total		**(782)**	**17855**	**(1,057)**	**12,212**

The following table shows the notional amount and the fair value of hedging derivatives on foreign exchange risk of transactions outstanding as at 31 December 2018 and 31 December 2017, broken down by type of hedge:

Millions of euro	Notional amount		Fair value assets		Notional amount		Fair value liabilities	
Derivatives	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Cross currency interest rate swap (CCIRS)	5,167	533	116	33	12,688	11,680	(898)	(1,089)
Total interest rate derivatives	**5,167**	**533**	**116**	**33**	**12,688**	**11,680**	**(898)**	**(1,089)**

The following table reports expected cash flows related to derivatives for the coming years:

Millions of euro

	Fair value	**Expected cash flows**					
	Dec 31, 2018	2019	2020	2021	2022	2023	Beyond
Cross currency interest rate swap							
Positive Fair value derivatives	116	106	122	116	116	130	805
Negative fair value derivatives	(898)	6	125	125	69	104	788
Total Exchange rate derivatives	**(782)**	**126**	**246**	**241**	**185**	**234**	**1,593**

Derivatives at fair value through profit or loss

The following tables show the notional amount and the fair value of derivatives assets and liabilities at FVTPL, as at 31 December 2018 and 31 December 2017, classified on the basis of each type of risk, broken down into current and non-current.

Milions of euro	**Non Current**				**Current**			
	Notional amount		Fair value		Notional amount		Fair value	
	Dec 31, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
DERIVATIVE ASSETS								
At FVTPL								
on interest rate risk	478	50	15	2	-	-	-	-
on foreign exchange risk	-	-	-	-	2,812	3,827	30	71
Total	**478**	**50**	**15**	**2**	**2,812**	**3,827**	**30**	**71**
DERIVATIVE LIABILITIES								
At FVTPL								
on interest rate risk	478	50	17	6	-	-	-	-
on foreign exchange risk	-	-	-	-	633	957	9	22
Total	**478**	**50**	**17**	**6**	**633**	**957**	**9**	**22**

18 Related parties

Transactions between Enel Finance International N.V. and other companies of Enel Group involve Financing and Treasury management.

The main activity of Enel Finance International N.V. is to operate as financing company of the Enel Group, raising funds through bonds issuance, loans and other facilities and on turn lending the funds so raised to the companies belonging to Enel Group.

Enel Finance International N.V. is also part of the centralizing financial flow process and acts as the primary reference for the management of financial needs or liquidity generated by the entities that operate outside of Italy and are part of Enel Group.

The company enters into plain vanilla transaction with Enel S.p.A., such as currency forwards and cross currency interest rate swaps in order to mitigate the interest and exchange rates risks.

These transactions are part of the ordinary operations of the Company and are settled on the basis of Standard intra-Group contract market prices.

Enel Finance International N.V. has no business relations with Key management during the financial year.

The following table summarizes the financial relationships between the Company and its related parties at 31 December 2018 and 31 December 2017 respectively:

Millions of euro	Receivables	Payables	Income	Cost
	at Dec. 31, 2018		**2018**	
Shareholder				
Enel S.p.A	6,092	165	95	0
(Subtotal)	*6,092*	*165*	*95*	*0*
Other affiliated companies				
Edwarme	0	2	0	0
Enel OpEn Fiber S.p.A.	0	0	5	-1
Villanueva Solar S.A. de C.V.	250	0	38	0
Proyecto Solar Villanueva Tres S.A. de C.V.	201	0	28	0
Proyecto Solar Don JosA S.A. de C.V.	177	0	24	0
Energia Limpia de Amistad, S. de R.L. de C.V.	64	0	25	-3
Enel Green Power Peru (USD)	181	0	17	4
Slovak Power Holding BV	244	0	2	0
Enel Green Power Romania	0	43	0	1
Parque Salitrillos, S.A. de C.V.	68	0	5	3
Enel Energia, S.A. de C.V.	0	0	4	0
Enel Green Power Canada Inc.	10	4	1	6
Tynemouth Energy Storage Limited	9	0	0	0
Enel Green Power Australia Trust	0	1	0	0
Enernoc, Inc	152	0	14	1
ENEL DISTRIBUCION CEARA S.A.	68	0	0	0
El Paso Solar S.a.s	52	0	3	2
Enel Rinnovabile,S.A. de C.V.	9	0	1	0
KINO Contractor,S.A. de C.V.	0	0	1	1
Dolores Wind, S.A. de C.V.	34	0	2	1
Parque Amistad II, S.A. de C.V.	22	0	0	-2
Parque Amistad III, S.A. de C.V.	11	0	1	3
Parque Amistad IV, S.A. de C.V.	14	0	3	4
EGP Hellas	266	0	19	1
ENDESA	3,015	0	92	-1
ENEL BRASIL	2,151	0	44	8
Enel Green Power Chile Ltda	0	0	2	4
Enel Green Power Costa Rica	0	5	1	2
e-distribuzione S.p.A.	5,562	0	341	-1
Enel X International srl	2	0	1	-2
Enel Energia	0	1,000	0	0
Enel Iberia SRL	4,767	122	224	-5
Enel Fortuna SA	0	15	0	0
EGP Bulgaria EAD	14	0	0	0
Enel Green Power Spa GLO	0	0	43	8
Enel Green Power Spa IT	4,272	0	0	0
ENEL INVESTMENT HOLDING BV	0	6	0	0
Enel Green Power North America Inc.	0	0	115	15
Enel Green Power Panama SA	56	0	6	0
Enel Produzione IT	3,317	0	113	-4
Enel Servizio Elettrico	0	2,472	0	14
Enel Sole	101	0	3	0

EGP Magdalena Solar, S.A. de C.V.	10	0	2	1
Enel Global Trading S.p.A. IT	200	0	3	0
Enel Trade Romania	2	0	0	0
Enel Holding Cile Srl	0	0	3	0
Enel Distribuicao Sao Paulo	95	0	0	1
Generadora Montecristo SA	0	50	2	5
Enel Green Power Mexico	161	0	16	5
P.H. Chucas SA	112	0	13	-1
Proveedora de Electricidad de Occidente Srl de cv	5	193	14	20
Enel Green Power Colombia SAS	5	0	1	0
Kalenta SA	18	0	0	0
Dominica Energia Limpia S. de R.L. de C.V.	40	0	19	-16
Energias Renovables La Mata S.A.P.I. de C.V.	104	0	14	-1
Enel Green Power Rsa (PTY) Ltd	67	0	8	8
Estrellada S.A.	2	0	8	0
Kongul Enerji Sanayi Ve Ticaret Anonim Sirketi	0	3	1	1
PARQUE EOLICO RENAICO SPA	561	0	66	-4
Energia Limpia de Palo Alto, S. de R.L. de C.V.	152	0	14	-7
Vientos de Altiplano, S. de R.L. de C.V.	27	0	8	1
ESTRELLA SOLAR	3	0	0	0
(Subtotal)	*26,653*	*3,916*	*1,370*	*72*
Total	**32,745**	**4,081**	**1,465**	**72**

Millions of euro

	Receivables	Payables	Income	Cost
	at Dec. 31, 2017		**2017**	
Shareholder				
Enel S.p.A	3735	756	556	83
(Subtotal)	*3,735*	*756*	*556*	*83*
Other affiliated companies				
E-distribuzione SpA	6,566	-	340	-
Enel Iberia, SRL	5,260	100	249	-
Enel Produzione S.p.A.	3,520	-	110	-
Enel Energia S.p.A.	-	500	-	-
Enel Servizio Elettrico S.p.A.	-	2,560	-	13-
Enel Trade SpA	500	-	18	-
EL PASO SOLAR SAS	2	-	-	-
Enel Investment Holding B.V.	0	1,087	1	1
Enel Green Power Peru	81	-	22	24
Energía Limpia de Am	97	0	6	7
ENERNOC INC	365	0	0	0
ENDESA S.A.	3,018	-	92	0
EGP Bulgaria EAD	18	-	0	0
Enel Sole S.r.l.	101	-	2	0
Enel Green Power S.p.A.	3,484	4-	26	0
Enel Green Power Chile Ltda	0	65	22	23
Enel Green Power Costa Rica	0	8	3	2
P.H. Chucas SA	119	0	7	16
Generadora Montecristo SA	0	34	9	5
Enel Green Power Mexico Srl de Cv	83	1	7	8
Proveedora de Electricidad de Occidente Srl de cv	13	5	5	7
Enel Green Power Panama SA	58	-	3	9
Enel Green Power Romania Srl	0	-	1	0
Enel Green Power Hellas Sa	270	-	24	0
Enel Green Power Canada Inc.	0	8	0	0
Enel Green Power North America Inc.	395	-	164	240
Kalenta SA	21	-	0	0
Enel Green Power Development B.V.				
Dominica Energia Limpia S. de R.L. de C.V.	259	-	10	17
Energias Renovables La Mata S.A.P.I. de C.V.	108	-	8	16

Enel Green Power Rsa (PTY) Ltd	29	-	16	1
Estrellada S.A.	44	-	3	6
Kongul Enerji Sanayi Ve Ticaret Anonim Sirketi	0	4	1	1
PARQUE EOLICO RENAICO SPA	537	0	37	74
Energia Limpia de Palo Alto, S. de R.L. de C.V.	111	-	8	17
Vientos de Altiplano, S. de R.L. de C.V.	91	-	7	14
Erdwärme Oberland Gm	0	1	0	0
Villanueva Solar, S.	259	-	15	18
Enel OpEn Fiber S.p.A.	220	-	3	0
Parque Salitrillos, S.A. De C.V.	19	-	0	0
Proyecto Solar Don José, S.A. De C.V.	146	-	12	14
Proyecto Solar Villanueva Tres, S.A. De C.V.	206	-	19	22
(Subtotal)	***26,000***	***4,377***	***1,250***	***555***
Total	**29,735**	**5,133**	**1,806**	**638**

For further details of the each relation with related parties please refer to notes 6, 9, 14.

19 Contractual commitments and guarantees

The notes issued by the Company under the GMTN programme are guaranteed by Enel S.p.A. Commercial papers issued the context of the Euro Commercial Paper Programme launched in 2005 by the Company are also guaranteed by Enel S.p.A. Furthermore, Enel S.p.A has confirmed their commitment to provide the Company with support until next year's approval of the financial statements, should the Company remain under control of the Enel S.p.A. The Company has not given guarantees to third parties up to the reporting date.

20 Offsetting financial assets and financial liabilities

At December 31, 2018, the Company did not hold offset positions in assets and liabilities, as it is not the Enel policy to settle financial assets and liabilities on a net basis.

21 Compensation of Directors

The emoluments of the Company Directors as intended in Section 2:383 (1) of the Dutch Civil Code, which were charged in 2018, amounted to Euro 87 thousand (Euro 87 thousand in 2017) represented short-term employee benefits and summarized in the following table:

Thousands of euro

	at Dec. 31,2018	at Dec. 31, 2017
A.J.M. Nieuwenhuizen	29	29
H. Marseille	29	29
E. Di Giacomo	29	29
A. Canta	-	-
Total	**87**	**87**

22 Fees of the auditors

Ernst & Young Accountants LLP has acted as external auditor for the company since 2011. With reference to Section 2:382 a (1) and (2) of the Netherlands Civil Code, below a summary is provided of services performed by Ernst & Young Accountants LLP and fees paid during the year. The increase is mainly due to overrun paid for 2017 audit.

Thousands of euro	**at Dec. 31, 2018**	at Dec. 31, 2017
Audit	104	80
Audit related services in connection with GMTN prospectus	30	30
Tax	-	-
Other	-	-
Total	**134**	**110**

23 Subsequent events

On 15 January 2019 the Company placed its third green bond on the European market, reserved for institutional investors and backed by a guarantee issued by Enel.

The issue amounts to a total of 1,000 million euros and provides for repayment in a single instalment at maturity on 21 July 2025 and the payment of a fixed-rate coupon equal to 1. 500%, payable annually in arrears in the month of July as from 2019. The issue price has been set at 98.565% and the effective yield at maturity is equal to 1.1.736%.

Amsterdam, 18 april 2019

A.J.M. Nieuwenhuizen
H. Marseille
E. Di Giacomo
A. Canta

Other information

Provisions in the articles of association governing the appropriation of profit

Under article 16 of the Company's articles of association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

The Company can only make distributions to shareholders from profits qualifying for payment insofar as the shareholders' equity is greater than the paid-up and called-up part of the capital plus the legally required reserves.

Report of the independent audit firm on the 2018 financial statements of Enel Financial International BV

The auditor's report is set forth on the following page.

Ernst & Young Accountants LLP
Cross Towers, Antonio Vivaldistraat 150
1083 HP Amsterdam, Netherlands
Postbus 7883
1008 AB Amsterdam, Netherlands

Tel: +31 88 407 10 00
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Independent auditor's report

To: the shareholder and board of managing directors of Enel Finance International N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Enel Finance International N.V. (hereafter: Enel Finance International N.V. or the Company), based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Enel Finance International N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statement of financial position as at 31 December 2018
- The following statements for 2018: the statement of comprehensive income, the statement of changes in equity and the statement of cash flows
- The notes, comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Enel Finance International N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Independent auditor's report

To: the shareholder and board of managing directors of Enel Finance International N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

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

Materiality

Materiality	€260 million (rounded) (2017: €233 million)
Benchmark applied	0.75% of total assets
Explanation	The main activity of Enel Finance International N.V. is to operate as a financing company of the Enel Group, raising funds from third party lenders through bonds issuance, loans and other facilities and in turn lending the funds raised to companies belonging to the Enel Group. Considering these financing activities, and based on our professional judgment, we consider the amount of total assets to be the most appropriate benchmark for the stakeholders of the Company.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of managing directors that misstatements in excess of EUR 13 million (rounded), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the board of managing directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters are consistent with prior year:

Estimation uncertainty with respect to the valuation of loans to and financial receivables from related companies	
Risk	The Company adopted IFRS 9 Financial Instruments (hereafter: IFRS 9) as of 1 January 2018 the impairment principles of IFRS 9 has been applied retrospectively without restating comparative information. The total net impact on equity as at 1 January 2018 amounts to €92 million lower carrying value. At 31 December 2018, the loans to and financial receivables from related companies amount to €32.498 million, net of impairment loss allowance of €47 million. The impairment loss allowance represents the Company's best estimate of expected credit losses (ECL) on these loans and financial receivables from related companies at balance sheet date. The ECL calculation is probability-weighted using a combination of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The probability of default (PD) is estimated mainly based on the creditworthiness of each counterparty.

Estimation uncertainty with respect to the valuation of loans to and financial receivables from related companies	
	The Company assess' the creditworthiness considering qualitative and quantitative information in order to reflect possible future events and macroeconomic scenarios, which may affect the risk of the portfolio or the individual loan. In addition, the Company uses external PD's as independent benchmark. The LGD used is based on a Basel standard percentage of 45%. As the loans to and financial receivables from the related companies are material to the Company's balance sheet and given the related estimation uncertainty on impairment losses, we consider this a key audit matter. The accounting principles and IFRS 9 related transitional disclosure on impairment loss calculation and loans to and financial receivables from related companies, including impairment loss allowance, are disclosed in the section Changes in accounting policies and disclosures, note 6 Long-term loans and financial receivables, note 9 Short-term loans and financial receivables and note 2 Financial income/ (expense) other than from derivatives.
Our audit approach	As the Company adopted IFRS 9 Financial Instruments as at 1 January 2018, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and assessing the adjustments and disclosures made on the transition. For the year-end impairment loss allowance, our procedures include an assessment of the appropriateness of assumptions and estimates in relation to the expected credit losses of the loans to and financial receivables from related companies. We verified the correctness of the input data, and challenged management's key assumptions used in credit loss history data and forecasts of future economic conditions, based on our own experience regarding such variables and with the support of our internal specialists. Furthermore, we have benchmarked the PD's used in the impairment allowance calculation with external sources, supported by our internal specialists. We have also assessed the appropriateness of the LGD percentage applied by the Company. Finally, we assessed whether the disclosures are in compliance with the EU-IFRS requirements.

Estimation uncertainty with respect to the valuation of loans to and financial receivables from related companies	
Key observations	Based on our procedures performed we consider the impairment loss allowance on loans to and financial receivables from related companies to be reasonable. The IFRS 9 related transitional disclosure and the disclosures on these long-term loans and financial receivables, including the impairment loss allowance, are considered appropriate and meet the requirements under EU-IFRS.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- The director's report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the shareholder as auditor of Enel Finance International N.V. for the audit for the year 2011 and have operated as statutory auditor since that year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided services related to the audit of the financial statements and provided consent in respect of the issued prospectus.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit 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 company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the board of managing directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the board of managing directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of managing directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements.
We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 18 April 2019

Ernst & Young Accountants LLP

signed by K.W. Tang