



TAX RISK MANAGEMENT AND CONTROL POLICY

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1. BACKGROUND AND RATIONALE

Article 529 ter of the Spanish Capital Corporations Law (*Ley de Sociedades de Capital* - LSC) for the improvement of corporate governance classifies several duties of the Boards of Directors of listed companies as non-delegable duties including, *inter alia*, the following:

- Establish the company's tax strategy.
- Establish a risk management and control policy, including as regards tax risks, and monitor internal reporting and control systems.
- Approve investments or transactions of any kind that, due to their high amount or specific characteristics, are considered strategic or pose particular tax risks, unless approval thereof is entrusted to the General Shareholders Meeting.
- Approve the creation or acquisition of shares in special purpose vehicles or organizations resident in a tax haven, as well as any other analogous transaction or operation that, based on its complexity, could compromise the transparency of Endesa.
- Approve transactions carried out by Endesa with directors or shareholders that hold a significant interest in Endesa or any company forming part thereof, including its subsidiaries, as well as with any persons related thereto, or as otherwise specifically required under the Related-Party Transaction Regulations.

Furthermore, Article 529 quaterdecies LSC requires that the Audit and Compliance Committee monitor the efficiency of the company's internal controls, internal audit, and risk management systems, including as regards tax risks.

In addition, the new corporate governance requirements on risk provide for, *inter alia*, the following actions:

- Identify all risks, including tax risks, that could pose a threat to the company's proper operation.
- Establish duties under the company's risk control and management system, ensuring separation of duties and independence.
- Ongoing management and control of risks faced by the company.
- Regularly update the company's risk map and risk management and control system based on development of the company and the environment and market in which it operates.
- Publish an annual, up-to-date governance report including information on, *inter alia*, the company's risk management and control systems.

Furthermore, in accordance with the Code of Good Tax Practices (CGTP), issued by the Tax Administration and intended to serve as a cooperation agreement between the signatories thereto, and which was signed by Endesa and its subsidiaries in 2011 –and ratified on 25 January 2016 following the addition thereto of a new Schedule–, the company has complied with the following mandatory obligations since 2016:

- The company's tax strategy shall be developed and duly justified by the Board of Directors and sent to the company's senior managers.
- The Board of Directors shall approve all transactions and investments that pose a particular tax risk.

- The company's risk management policy shall adopt measures aimed at mitigating identified tax risks and shall establish internal corporate governance rules in such regard, compliance with which may be subject to verification.
- The company shall employ efficient information and internal control systems as regards tax risks, and the design and operation thereof shall be fully integrated into the company's general internal control systems.
- The company shall provide the Tax Administration with true and accurate information on the above points.

Furthermore, and in accordance with the CGTP, Endesa plans to submit an annual Enhanced Transparency Report to the Tax Administration in accordance with the enhanced good practices for tax transparency under the CGTP, applicable to signatory companies starting in 2017, referring to activities performed during 2016. This Report shall include:

- A description of the Tax Strategy approved by the company's governing bodies, specifying how said strategy was developed, who is responsible for such strategy, where the strategy is laid out and what internal control measures are applied to ensure that all affected employees are aware of and apply said strategy (tax control framework).
- A list of all tax transactions submitted to the Board of Directors together with an explanation of how and who determines which transactions pose a particular tax risk, thus requiring the approval of the Board of Directors. An explanation of the internal control measures applied to ensure that all transactions requiring Board approval have in fact been approved thereby shall also be included, together with an explanation of how the effectiveness of such internal control measures is regularly monitored.
- An explanation of whether it has any guidelines for preventing illegal transactions, money laundering and/or asset stripping, identifying the responsible party in such regard and providing a brief description of such guidelines, further specifying which employees have access thereto and how such guidelines may be accessed. The internal control measures applied to ensure compliance with such guidelines shall also be specified.
- An explanation of the level of consistency in the company's tax behaviors as regards BEPS principles and actions, including any justifying information deemed appropriate.

On 28 February 2019, Spanish Standard UNE 19602, on "Tax Compliance Management Systems," was approved. This regulation provides a standardized framework for implementing and maintaining an adequate tax compliance management system to ensure the creation of a proper organizational culture that is sensitive to the prevention, detection, management and mitigation of tax risk.

In light of the above, Endesa is therefore required to comply with all of its tax risk obligations under the LSC, corporate governance rules and the provisions of the CGTP. Likewise, it is advisable that Endesa's system meets the standards laid out in Standard UNE 19602.

Endesa's Board of Directors approved on 15 June 2015 the following documents:

- The company's Tax Strategy.
- The Risk Control and Management Policy.

Both of these documents are available on the company's corporate website.

Endesa's Tax Strategy sets out the basic principles to be followed in the performance of the Tax Function's duties including, in particular, the following:

- Endesa undertakes to comply with all tax legislation in force, adopting at all times a reasonable interpretation thereof, thus working to avoid any undue inefficiencies or tax expenses for Endesa.
- Endesa undertakes not to:
 - Use operations or structures aimed solely at obtaining a tax advantage and which do not address any business needs and have no relation whatsoever to the location of the material and/or human resources, nor to any activities or business risks of the company.
 - Carry out any deceiving or other transactions bearing no relation to the company's business and which are performed with the sole purpose of reducing the tax burden.
 - Use opaque structures for the sole purpose of reducing the company's tax burden.
 - Make investments in or through tax havens for the sole purpose of reducing its tax burden.
 - Transactions between related parties shall be carried out in accordance with Endesa's Related-Party Transaction Regulations and other applicable law.

On the other hand, Endesa's Risk Management and Control Policy aims to guide and direct all strategic, organizational and operational actions taken by the Board of Directors to accurately establish acceptable risk tolerance levels with a view to ensuring that the managers of each business line can maximize the company's profitability, preserve or increase its assets and equity, and maximize the certainty of performance above established thresholds, thus preventing uncertain, future events from negatively impacting the attainment of established profitability objectives.

In light of the above and with a view to compliance with all of the aforementioned obligations, it is hereby concluded that a Tax Control Framework shall be established for Endesa and its subsidiaries.

2. PURPOSE AND SCOPE

The Tax Risk Management and Control Policy shall serve as the basis for Endesa's Tax Control Framework and is intended to help Endesa's Tax Function properly manage and control tax risks through the establishment of the following principles:

- Principles guiding the management of tax risks, establishing obligations and duties within the organization in such regard and including a description of the suggested measures for mitigating any potential identified tax risks.
- Principles guiding the proper control of tax risks, including, on the one hand, the implementation of several preventive *ex ante* controls and, on the other hand, *ex post* controls aimed at identifying, measuring, analyzing, monitoring and reporting risks in accordance with the provisions of Endesa's Risk Management and Control Policy and of its Operating Instructions for developing the Endesa Risk Map.

The Tax Risk Management and Control Policy shall apply to all Endesa companies, defined as those organizations, whether a legal entity or otherwise, controlled directly or indirectly by Endesa, by virtue of ownership of a majority of both the economic and voting rights therein.

3. TAX RISK CONTROL AND MANAGEMENT PRINCIPLES

The basic principles governing Endesa's general risk management and control activities and which are equally applicable to tax matters, are as follows:

- Senior Management Involvement (as defined in the Board of Directors Regulations): The Iberia Risk Committee ensures participation of senior management in strategic risk management and control decisions. Endesa's Board of Directors is responsible for establishing the Risk Management and Control Policy, including as regards tax risks, as well as for monitoring internal reporting and control systems and establishing acceptable risk limits applicable to the company from time to time.
- Separation of Duties: The separation of duties between the business areas (risk takers) and those areas in charge of measuring, analyzing, controlling and reporting risks ensures sufficient independence and autonomy for proper risk control. The Risk Committee shall, under the direct supervision of the Audit and Compliance Committee, perform risk management and control duties. The operational organization of risk management and control duties shall be implemented through separate and independent areas, namely Risk Management and Risk Management Control.
- Identification of Duties: Each risk taker and, as the case may be, risk managers, shall clearly identify the types of activities, segments and risks that it may face as well as the manner in which transactions will be managed to ensure proper risk control. The company shall have a regulatory system and all necessary tools to continually identify, quantify and report any relevant risks faced by the company. The businesses, corporate areas, business lines and companies shall establish the risk management controls required to ensure that market transactions are executed in accordance with Endesa's policies, rules and procedures.
- Assignment of Duties: Management by the General Manager (Businesses) strengthens assignment of duties and detailed monitoring of the transactions according to the risks incurred.
- Availability of Risk Policies and Procedures: The risk policies and procedures constitute the basic regulatory framework through which risk processes are regulated.
- Overall and Specific Risk Assessment: The risk models should distinguish between generally-managed risks and specifically-managed risks. General risk assessments take into account all risk positions taken throughout the business perimeter.
- Limitation of Risks: Acquire knowledge of the existing risks and take into account the necessary infrastructure to manage, control and report on such risks as well as to ensure that the risk level, exposure and loss do not under any circumstances exceed approved caps.
- Risk Position Analysis and Control: The risk management process involves analyzing and controlling current and projected risk positions and comparing them to a comprehensible limits structure. The implications and contingencies of all risks and decision-making aimed at modifying the established limits, if not in line with the company's accepted risk level, are assessed.
- Risk Methodology Definition and Assessment: The risk methodologies provide definitions for the internal risk assessment models accepted and, therefore, applicable to the company.
- Updates and Continual Improvement: Regular reviews are completed that reflect the continuing development of the company and of improvements in risk control and management practices.

In addition, the following principles shall apply specifically to tax risks:

- Endesa envisages tax risk management and control as part of the Tax Function and believes that this requires the involvement and commitment of all members of the organization, and is under no circumstances an isolated organizational structure established for the purpose of overseeing the conduct of Endesa in relation to identified tax risks.

- Endesa's Tax Function is governed by the principle of faithful compliance with applicable tax legislation and internal regulations in force, including the Tax Strategy and this Tax Risk Management and Control Policy, and shall also comply with the provisions of the Code of Good Tax Practices and of Endesa's Code of Conduct.
- The Tax Function is supported by the relevant due diligence procedures in place at Endesa, including those governing both internal relations and external relations with third parties.
- As relates to those persons who hold positions that are particularly exposed to tax risks, which are defined as those persons who occupy positions holding responsibility for tasks of a tax nature and whose decisions could give rise to a relevant breach, it is specifically required that a due diligence procedure be carried out in relation to suitability when being hired or promoted to such a position. Likewise, in such cases, the compensation elements shall be reviewed to ensure there are reasonable safeguards aimed at preventing the creation of incentives to assume tax risk, and a statement shall be formalized, at planned intervals, confirming their adherence to the Tax Risk Management and Control Policy.
- Endesa shall have an Ethics Channel available to all interest groups, where any irregular or inappropriate conduct which may arise in relation to the Compliance System or in the performance of the Company's activity may be securely and anonymously reported. An external and independent firm shall manage the Ethics Channel, processing all complaints and communications on a confidential basis.

In addition, Endesa shall make available to anyone who so requests an e-mail address to facilitate inquiries related to the understanding and application of this Tax Risk Management and Control System.

- Any breach or non-compliance with this Policy or with any rule, instruction and/or process forming part of Endesa's Tax Risk Management and Control System may lead to the adoption of such disciplinary measures as deemed appropriate, in accordance with applicable legislation.

4. TAX RISK CONTROL AND MANAGEMENT POLICY

4.1. TAX RISK MANAGEMENT POLICY

Endesa manages uncertainty in the face of risks arising from:

- Requests to the taxpayer from the Tax Administration requiring that the former pay additional amounts, whether as a result of not filing the relevant tax returns or due to a disagreement in interpretation of the regulations applicable to any previously filed tax returns, including for such purposes tax liabilities, default interest, penalties or any other amount considered to be a tax debt. This risk relates both to compliance with regulations in force as well as to changes in the interpretation thereof. This type of risk is considered technical tax risk.
- The significant reduction in the perception, valuation or opinion about the company by its key stakeholders due to actions taken by the company, information that is falsely or unfairly attributed to the company or similar events that affect the industry as a whole and that have a more acute or harmful impact on the company due to its leading position in the industry. This type of risk is considered reputation tax risk.

Tax risk is managed at various levels of the company.

First, those duties set forth in the LSC as previously referred to herein above shall be deemed non-delegable duties of Endesa's Board of Directors and Audit and Compliance Committee.

Furthermore, certain actions and transactions as set forth in Endesa's Board of Directors Governance Regulations, approved on 18 September 2015, shall be authorized by the Board of Directors.

The Tax Affairs Unit is in charge of managing tax risks and as such shall:

- In the case of transactions or matters requiring Board approval, notify the Board of any tax implications whenever such implications are deemed to be relevant.
- In the case of investments or transactions not covered under the previous paragraph but which nonetheless pose a particular tax risk, submit such investments or transactions to the Board of Directors for approval.

In order to properly manage tax risks, the location of the company's Tax Function must be clear, for which purpose, Endesa has drafted a Tax Function Map identifying those Units within the company whose operations may have tax implications for Endesa and further identifying the relation between each such Unit and the Tax Affairs Unit.

The involvement of the Tax Affairs Unit at all stages of the business value chain is essential to the proper management of tax risks and, thus, the Tax Affairs Unit actively participates in business decisions, ensuring that all decisions are made in due consideration of those aspects related to tax risks. The Tax Affairs Unit is also responsible for analyzing the tax implications of any framework or specific agreements which the business units wish to execute in order to ensure the proper tax treatment thereof. In this same regard, material corporate or related-party transactions are never carried out without first obtaining the opinion of the Tax Affairs Unit, which shall in all cases consider the tax costs of the transaction as well as any potential tax risks related thereto.

Prior to launching a new product (defined as any substantial change to the conditions of an existing product) or carrying out a new business operation, the Tax Affairs Unit shall analyze the implications of said transaction and issue the relevant recommendations.

The Tax Affairs Unit shall be required to assess the tax implications of any compensation policies before such policies may be implemented. This same requirement shall apply to the payment of special indemnities or compensation.

The following duties shall be centralized in the Tax Affairs Unit with a view to controlling tax risks:

- File tax returns and comply with all tax obligations within the time and form required.
- Perform an ongoing analysis of developments in tax legislation, case law and doctrine, quantifying the impact thereof on Endesa.
- Participate in relevant forums discussing tax matters.
- Assist and advise the business units, staff areas and corporate bodies on all matters that may have direct or indirect tax implications for Endesa.
- Define and set the relevant tax criteria for those Units whose activity may have tax implications, ensuring that all tax decisions are properly justified and documented and are taken at the appropriate management level within the organization.
- Manage and coordinate audits, including any proceedings that may arise therefrom, undertaking to request assistance as necessary from the other departments.
- Communicate and interact with all levels of the Tax Administration.
- Lead and manage any tax litigation.
- Report on tax matters to significant shareholders, third parties or other company Units as may require such information, ensuring that the relevant tax inputs are provided in order to draft all applicable legal documents and other reports required to be issued by Endesa.

- Draft the tax budget.
- Adjust risk levels to the targets set by the Board of Directors, manage tax risks and apply predefined risk controls, monitoring the effectiveness thereof.
- Provide tax training support to members of the organization who carry out tasks directly or indirectly related to the tax function.
- Provide training to members of the organization in relation to the operation of Endesa's Tax Risk Management and Control System to the extent such System is applicable to all members of the organization.
- Resolve inquiries regarding Endesa's Tax Risk Management and Control System received in the Mailboxes set up for such purpose.

In order to ensure proper performance of the aforementioned duties:

- The Tax Affairs Unit shall at all times have a sufficient number of qualified personnel available to carry out its duties. All Tax Affairs Unit employees shall follow a training plan that enables them to properly perform their duties. In addition, various mechanisms have been established to ensure compliance with tax obligations even in such cases in which a member of the Tax Affairs Unit is temporarily absent.
- The Tax Affairs Unit has the necessary material resources to carry out its duties, in which regard mechanisms have been established to ensure compliance with the tax obligations applicable in the event that any of the IT systems fail.
- The Tax Affairs Unit has developed specific procedures for each tax obligation it manages. These procedures, in addition to establishing processes for properly paying taxes and implementing quality controls for correcting the relevant tax settlements, appoint one individual responsible for implementing the process and another responsible for monitoring such process, thus minimizing the risk of error.
- The Tax Affairs Unit has developed procedures to ensure that documents with tax relevance are properly managed and archived.
- If any Unit/Department is involved in compliance with any of the above-mentioned tax obligations, such Unit/Department shall be included in the procedure established by the Tax Affairs Unit and shall be required to perform any enforcement, control or reporting duties assigned thereto.
- The Tax Affairs Unit carries out an in-depth technical analysis for each tax position adopted on the basis of a reasonable interpretation of the rules and supported by doctrine and case law applicable to each case, identifying both short- and long-term tax implications and assessing the reputational impact of any decisions adopted.
- In light of the varying interpretations of applicable regulations, Endesa relies on experts in the area to analyze these regulations, as well as on renowned tax advisors that collaborate on interpreting said regulations, thus enabling Endesa to bring its conduct in line with applicable law.
- As deemed convenient, the Tax Affairs Unit may make use of such mechanisms as available under tax regulations to ensure the proper tax treatment of certain transactions (e.g. tax consultations, reports based on R&D deductions, etc.).

With a view to ensuring transparency in the area of tax risk management, the Tax Affairs Unit shall:

- Report the following information to the Board of Directors, through the Audit and Compliance Committee, at least once per year and, in any case, whenever a particularly relevant issue has been raised:
 - Information on taxes paid for the relevant period.
 - The most important tax policies followed in relation to each tax.
 - The most important information on any pending or completed tax litigation or audits during that year, specifying as the case may be the amount claimed and the strategy followed for payment/non-payment and/or for its processing before the Courts.
 - The most significant tax risk positions arising from new rulings issued by the Tax Inspectorate, Directorate-General of Taxation, Administrative Courts and Courts of Justice.
 - Compliance with obligations undertaken as a signatory to the Code of Good Tax Practices.
 - Summary of all transactions approved by the Board during the year referred to in the tax report.
- Report information on the proper functioning of the established tax risk management and control systems to the Audit and Compliance Committee, through the Risk Control Unit.
- Include all required tax information in the Annual Financial Statements, Annual Corporate Governance Report and Sustainability Report.

The Tax Affairs Unit shall, for each identified risk, manage such risks following an action plan aimed at eliminating, reducing or assuming the risk which, in the latter case, shall only be permitted if in accordance with the risk profile established by the Board of Directors.

4.2. TAX RISK CONTROL POLICY

Tax risk is defined as the risk of incurring judicial or administrative sanctions, economic or financial losses or reputational damage as a result of non-compliance with the laws and regulations governing tax obligations.

Tax risks are controlled on the basis of several tax processes and procedures, some of which are reflected in policies, operating guidelines, manuals and maps, all ultimately aimed at implementing preventive *ex ante* controls against tax risks in order to prevent such risks from materializing.

In addition, *ex post* controls are implemented in accordance with Endesa's internal regulations and, in particular, with its Risk Management and Control Policy, manual for drafting its Risk Map, and the Risk Report to the Risk Committee.

In this process, the duties of the Tax Affairs Unit (under the supervision of the General Manager to which it reports) are to identify, measure and control any tax risks identified in the Risk Map.

The risk control and management process starts with identifying risks and is ultimately aimed at developing a comprehensive list of risks based on those events that could prevent, reduce or delay the attainment of objectives.

In particular, Endesa identifies its tax risks based on the following classification:

- Compliance Risk: risk of not complying with tax obligations in the time and manner required.

- Technical Analysis Risk: risk of non-compliance resulting from an incorrect or inappropriate tax decision, taking into account the context of the organization.
- Implementation Risk: risk of non-compliance resulting from not properly carrying out tax procedures as previously defined or from any other tax optimization alternatives adopted.
- Internal Communication Risk: risk of non-compliance resulting from non-existent or inadequate communication between the different areas with tax duties and the rest of the company.
- External Risk: risk of tax regulations or administrative or judicial criteria being amended.
- External Communication Risk: risk of an inaccurate market interpretation of the financial/tax information, resulting in economic actors or the Tax Administration making negative assessments of the company.

All identified tax risks are characterized based on the type of risk.

In this process, the remaining Units within the company who have tax duties shall report any tax risk identified to the Tax Affairs Unit.

Once all of the risks have been identified, they are classified as being relevant or not for the purposes of quantification during the measurement stage.

The tax risk is calculated taking into account total amounts owed, tax assets that may not be applicable, as well as any applicable penalties, administrative fees and/or default interest.

Those risks that are deemed non-significant and thus are not measured shall include a justification of such classification. This justification shall specify why said risk was not quantified in the event that such risk materializes, thus resulting in an economic or reputational impact on the company.

These risk measurements represent the company's overall risk position.

The Tax Affairs Unit shall, on a monthly basis, report the indicators (KPIs and KRIs) identified in the risk map as well as any relevant tax risk control and management events to the Iberia Risk Control Unit. The Risk Control Unit shall, on a monthly basis, report the status of the risks to the Risk Committee based on performance of the indicators and shall report quarterly to the Audit and Compliance Committee.

The Tax Affairs Unit shall be responsible for reporting to the Iberia Risk Control Unit as soon as possible as regards any new relevant risk (new threats) or any significant change in the relevance of any previously identified risks (increase in threat) that may arise in the performance of its activity.