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REPORTS ISSUED BY ERNST & YOUNG WITH RESPECTO TO  
THE ANNUAL FINANCIAL STATEMENTS OF ENXESA, S.A. FOR  
FISCAL YEAR 2019

**Audit Report on Financial Statements  
issued by an Independent Auditor**

**ENDESA, S.A.  
Financial Statements and Management Report  
for the year ended  
December 31, 2019**

## AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 22)

To the Shareholders of  
ENDESA, S.A.

### Report on the financial statements

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#### Opinion

We have audited the financial statements of ENDESA, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

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#### Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

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

### *Impairment of non-current investments in Group companies and associates*

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**Description** At December 31, 2019, the Company had recognized in non-current assets investments in the equity of group companies and associates amounting to 18.893 million euros.

The Company recognizes impairment losses whenever there is objective evidence that the carrying amount of said investments may not be recoverable. The amount of the impairment loss is the difference between the investment's carrying and recoverable amounts.

Recoverable amount is determined using complex estimates based on the application by Company Management of criteria, judgments, and hypotheses. We have determined this matter to be a key audit issue due to the significance of the amounts and the complexity inherent in assigning value to the key hypotheses considered and to changes in the related assumptions.

The information related to the criteria applied by Company Management and the principal hypotheses used in determining impairment losses from investments in group companies and associates are described in Note 4.d) to the accompanying financial statements.

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**Our response** Our audit procedures include, among others, the following:

- ▶ Understanding the processes established by Company Management to determine impairment on non-current investments in group companies and associates including assessment of the design and implementation of relevant controls associated to their recognition process.
- ▶ Analyzing indications of impairment and, where necessary, reviewing the model used by Company Management to determine recoverable amount in collaboration with our valuation specialists, focusing particularly on the model's mathematical coherence, the reasonableness of projected cash flows, discount rates, and long-term growth rates.
- ▶ Reviewing the disclosures in the financial statements in accordance with the applicable financial reporting framework.

### *Provisions for pensions and other similar provisions and provisions for workforce restructuring plans*

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**Description** At year end, the Group recognized provisions for pensions and other similar provisions as well as provisions for workforce restructuring plans totalling 246 million euros. Of this total, 199 million were recognized as long term and 47 million euros as short term.

Determination of the related recognition criteria, as well as the valuation of these provisions, requires that Company management make certain judgments, assumptions, and complex estimates.

In relation to the commitments derived from this area, on December 4, 2019, it was agreed to submit to a "binding equity arbitration" some of the most relevant matters of the negotiation of the "V Framework Collective Agreement of ENDESA". On January 21, 2020, a mandatory Arbitration Award was issued for the parties whose content was incorporated into the "V Framework Collective Agreement of ENDESA" which became effective on January 23, 2020 and whose registration, as of the date of this audit report, is in process on the competent labor authority. In this regard, Note 21 of the accompanying financial statements includes the statement that cannot be made, at the date of the preparation of the accompanying consolidated financial statements, an estimate of the financial effect resulting from said Framework Collective Agreement.

We have considered this a key audit matter due to the complexity of assigning value to the key assumptions and judgments used at year end and to the fact that changes in these assumptions could have a significant impact on the consolidated income statement and also due to the complexity of the evaluation of the accounting effects that come from the decisions taken in the negotiating process of the "V Framework Collective Agreement of ENDESA" and the "binding equity arbitration".

Disclosures for the recognition and valuation criteria used on these provisions, as well as the breakdown of these provisions, which are recognized as current and non-current liabilities, and the description of the subsequent events at year end which affect these commitments, are respectively included in Notes 4.f), 11 and 21 of the accompanying financial statements.

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**Our response** Our audit procedures include, among others, the following:

- ▶ Understand the processes applied by Company Management to estimate provisions, including assessment of the design and implementation of relevant controls.
- ▶ Analyse and evaluate the accounting effects because of the decisions taken during the negotiation process of the "V Framework Collective Agreement of ENDESA" and the "binding equity arbitration".
- ▶ Obtain confirmation letters from external insurance companies.
- ▶ Involve our internal actuarial specialists to analyse the reasonableness of conclusions reached by Company Management.
- ▶ Review disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

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#### **Other information: management report**

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the Company's Directors and is not an integral part of the financial statements.



Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report or, where applicable, that the consolidated management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and, if not, disclose this fact.
- b) A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Company obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the management report includes a reference that the non-financial information described in paragraph a) above is provided in the consolidated management report of the Endesa Group, to which the company belongs, and that the Corporate Governance Report information described in said paragraph is included in the management report. We likewise verified that the remaining the information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

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### **Responsibilities of the Directors and the Audit and Compliance Committee for the financial statements**

The Directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit and Compliance Committee is responsible for overseeing the Company's financial reporting process.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- ▶ Obtain 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- ▶ Conclude on the appropriateness of the Director'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 the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit and Compliance Committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Report on other legal and regulatory requirements

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### Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on February 25, 2019.

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### Term of engagement

The ordinary general shareholders' meeting held on April 26, 2017 appointed us as auditors for 3 years, commencing for the year ending December 31, 2017.

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since December 31, 2011.

ERNST & YOUNG, S.L.  
(Registered in the Official Register of  
Auditors under No. S0530)

(Signed on the original version in Spanish)

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Olatz Díez de Artazcoz Herreros  
(Registered in the Official Register of  
Auditors under No. 23208)

February 24, 2020