



OPEN POWER FOR A BRIGHTER FUTURE.

WE EMPOWER SUSTAINABLE PROGRESS.

REPORTS ISSUED BY ERNST & YOUNG WITH RESPECTO TO
THE ANNUAL FINANCIAL STATEMENTS OF ENDESA, S.A. AND
ITS CONSOLIDATED GROUP FOR FISCAL YEAR 2019

endesa

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

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

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

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of
ENDESA, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of ENDESA, S.A. (the Parent Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2019, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements, give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2019 and of its consolidated financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

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 consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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-financial assets

Description At year-end 2019, the Group recognized property, plant, and equipment under non-current assets in the amount of 21,329 million euros, intangible assets totalling 1,375 million euros, and goodwill amounting to 462 million euros.

As a result of the decision of the Board of Directors of Endesa, S.A. of September 27, 2019 to discontinue the operation of mainland coal-fired thermal power plants, and the regulatory changes approved in 2019 related to the electricity production activity in the Non-Mainland Territories, the Group, as indicated in Note 28 of the accompanying consolidated financial statements, has recognized impairment loss of non-financial assets amounting to 1,352 million euros corresponding to property, plant and equipment of mainland coal-fired thermal power plants, 401 million euros corresponding to the property, plant and equipment of the Non-Mainland Territories and 17 million euros corresponding to goodwill.

The recoverable amount of the above assets is subject to the existence of potential impairment, which is determined based on complex estimates and assumptions made by Group Management using criteria, judgments, and hypotheses. We consider this to be a key audit matter due to the significant amounts and the inherent complexity of assigning a value to key assumptions made and changes therein.

The Group applied the following key criteria, hypotheses and judgments: Electricity and gas demand, regulatory measures, average hydraulic and wind energy, installed capacity, production mix determination, sales and energy purchase prices, electricity and gas sales prices, fuel costs, fixed costs, as well as discount and growth rates.

Additional information on the criteria applied by Group Management, as well as key assumptions used during the determination of impaired value of non-financial assets is disclosed in Note 3.e) of the accompanying consolidated financial statements.

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

- ▶ Understanding the processes established by Group Management to determine impairment of the value of non-financial assets, including assessment of the design and implementation of relevant controls.
- ▶ Reviewing the model used by Group Management with the assistance of our valuation specialists, encompassing its mathematical coherence, reasonableness of the projected cash flows, discount rates, and long-term growth rates, as well as the outcome of the sensitivity analyses carried out by Group Management. Throughout the performance of our work, we held interviews with the business heads and using renowned external sources and other available information to contrast data.
- ▶ Review disclosures included in the accompanying consolidated financial statements in accordance with the applicable financial reporting framework.

Revenue recognition. Electricity and gas sales supplied yet not billed

Description At year-end 2019, the Group recognized 876 million euros and 411 million euros on the consolidated income statement for electricity and gas sales, respectively, which have been supplied but thus far have not yet been billed; this is due to the fact that the customary meter reading does not coincide with the financial statement year end. We consider this to be a key audit matter due to the valuation of these unbilled sales is based on a series of complex estimates requiring the application of certain criteria, judgments, and hypotheses by Group Management.

The main estimates to which Group Management applies criteria and hypotheses to determine these unbilled sales are the following: energy consumption, energy costs, average selling prices, and toll costs.

Information on the Group's income recognition criteria, as well as a breakdown of sales pending billing are disclosed in Notes 3.f) and 12, respectively, of the accompanying consolidated financial statements.

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

- ▶ Understand Group criteria and procedures used to estimate billed sales, including assessment of the design and implementation and the effectiveness of relevant controls.
- ▶ Analyze Group energy balance to verify the reasonableness of the hypotheses applied (consumption, cost, prices), comparing the results obtained against business performance, prior years' experience, data and historical trends.
- ▶ Perform analytical procedures involving a review of energy consumption trends, costs, average prices, and toll costs, as well an analysis of correlations between associated accounts.

Provisions for litigation, termination benefits, and other legal or contractual obligations

Description At year end, the Group recognized provisions for litigation, termination benefits, and other legal or contractual obligations totalling 541 million euros, of which 510 million euros are recognized as non-current and 31 million euros as current liabilities.

Group Management makes complex estimates and applies certain judgments and hypotheses to value these provisions.

We have considered this a key audit matter due to the complexity of assigning value to the main assumptions considered, as well as how changes therein might have a significant effect on the consolidated statement of financial position, and on the consolidated income statement, considering the significance of the amounts of the recognized provisions.

Disclosures for the recognition and valuation criteria used on these provisions, as well as the breakdown of these provisions in accordance with their nature, which are recognized as current and non-current liabilities are respectively included under Notes 3.k), 16 and 23 of the accompanying consolidated financial statements.

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

- ▶ Understand the processes applied by Group Management to estimate provisions, including assessment of the design and implementation of relevant controls.
- ▶ Obtain confirmation letters from the internal and external legal advisors of the Group.
- ▶ Involve our internal legal specialists to analyze the reasonableness of the conclusions reached by Group Management.
- ▶ Review disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

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

Description	<p>At year end, the Group recognized provisions for pensions and other similar provisions as well as provisions for workforce restructuring plans totalling 1,825 million euros. Of this total, 1,644 million were recognized as long term and 181 million euros as short term.</p> <p>Determination of the related recognition criteria, as well as the valuation of these provisions, requires that Group management make certain judgments, assumptions, and complex estimates.</p> <p>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 38 of the accompanying consolidated 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 in 2020 resulting from said Framework Collective Agreement.</p> <p>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".</p> <p>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 3.k), 16, 23 and 38 of the accompanying consolidated financial statements.</p>
-------------	---

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

- ▶ Understand the processes applied by Group 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 Group Management.
- ▶ Review disclosures included in the consolidated financial statements in accordance with the applicable financial reporting framework.

Other information: consolidated management report

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

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated 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 consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group 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 consolidated 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 information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the Parent Company's Directors and the Audit and Compliance Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, the Directors of the Parent Company are responsible for assessing the Group'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 aforementioned Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Parent Company.

- ▶ Conclude on the appropriateness of the use, by the Directors of the Parent Company, 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee of the Parent 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 Parent 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 Parent Company, we determine those matters that were of most significance in the audit of the consolidated 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

Additional report to the Audit and Compliance Committee of the Parent Company

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee of the Parent Company on February 24, 2020.

Term of engagement

The annual general shareholders' meeting held on April 26, 2017 appointed us as auditors for 3 years, commencing for the year ended 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 January 1, 2011.

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

(Signed on the original version in Spanish)

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

February 24, 2020