



**Auditors' report on information relating to
the System for Internal Control over Financial
Reporting (SICFR) of the Endesa Group
for fiscal year 2010 (KPMG Auditores, S.L.)**

Auditor's report on "Systems of Internal Control over Financial Reporting (SICFR)" of the
Endesa Group for 2010

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

To the Directors,

At the request of the Board of Directors of Endesa, S.A. (hereinafter the Company), and in accordance with our proposal dated 11 February 2011, we have applied certain procedures to the accompanying "Information on SICFR" (attached as Appendix 1 to the 2010 directors' report on the Company) of Endesa, S.A. and subsidiaries (the Endesa Group) for 2010, which summarises the Group's procedures for internal control over financial reporting.

On 15 February 2011 the Spanish Congress approved the Sustainable Economy Bill, the eighth final provision of which includes an amendment to Law 26/2003 of 17 July 2003, which amended Law 24/1998 of 28 July 1998 on the Spanish securities market. The bill stipulates that annual corporate governance reports should include a description of the main features of the internal control and risk management systems used in regulated financial reporting. With respect to the aforementioned bill, the Spanish Securities Market Commission (CNMV) created a working group to prepare a set of recommendations on the systems used by listed entities for internal control over financial reporting. As a result, in June 2010 a document was published entitled "Systems of Internal Control over Financial Reporting for listed companies" (hereinafter the Document). Section III of the Document includes a set of guidelines for preparing the description of internal control over financial reporting, which sets forth 16 basic indicators that should be considered by companies when describing the main features of their SICFR.

The Board of Directors is responsible for adopting the measures required to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system, as well as the development of improvements to this system and the preparation and stipulation of the contents of the accompanying information on SICFR.

Irrespective of the quality of the design and operation of the internal system adopted by the Endesa Group for its annual financial reporting, the Group can only provide reasonable but not absolute assurance as to the objectives sought, due to the limitations inherent in any form of internal control system.

During the course of our audit of the annual accounts, and in accordance with the technical standards that govern the audit profession, the sole aim of our assessment of the Endesa Group's internal control was to establish the scope, nature and timing of the audit procedures performed on the Group's annual accounts. Consequently, the scope of our assessment of the Group's internal control, which was performed for the purpose of the above-mentioned audit, did not enable us to issue a specific opinion on the efficiency of this internal control over regulated annual financial reporting.

For the purpose of issuing this report we applied the specific procedures described below. The work resulting from these procedures has a limited scope which is substantially less than that of an audit of the internal control system. Therefore, we do not express an opinion on the effectiveness of the system, or on its design or operating efficiency, with respect to the Endesa Group's annual financial reporting for 2010 described in the accompanying information on SICFR. Consequently, had we applied additional procedures or performed an audit on the Group's internal control over regulated annual financial reporting, other issues may have come to light, of which you would have been informed.

Furthermore, as our work is not considered to be an audit and is therefore not subject to Spanish Audit Law 19/1988, we do not express an audit opinion under the terms and conditions of the aforementioned legislation.

Our work was performed in accordance with Appendix 2 of the Document ("Procedures for review by an external auditor"), which refers to the Auditor's Report on Systems of Internal Control over Financial Reporting for listed entities and sets forth the work to be performed and the scope thereof, comprising the following procedures:

1. Reading and understanding of the accompanying information on SICFR prepared by the Company, and assessment of whether this covers all the information required in accordance with the minimum contents described in section III of the Document ("Guidelines for preparing the description of SICFR").
2. Interviews with the personnel responsible for preparing the information detailed in point 1, to: (i) understand the process for preparing this information; (ii) obtain information enabling us to assess whether the terminology used meets the definitions set forth in the reference framework; and (iii) procure information on whether the control procedures described have been implemented and are in operation within the Endesa Group.
3. Review of explanatory documentation supporting the information detailed in point 1 above, which mainly includes that made directly available to the persons responsible for preparing the information describing SICFR.
4. Comparison of the information detailed in point 1 above with the knowledge of the Endesa Group's SICFR obtained by applying the procedures performed during our audit of the annual accounts.
5. Reading of the minutes from meetings of the Board of Directors, Audit and Compliance Committee and other Company committees, to assess consistency between the issues discussed therein with respect to SICFR and the information detailed in point 1 above.
6. Procurement of the representation letter on the work performed, duly signed by those responsible for preparing the information detailed in point 1 above.

As a result of our work no significant issues have come to light with respect to the application of the above-mentioned procedures.

This report has been prepared exclusively within the context of Endesa, S.A.'s voluntary presentation of the accompanying description of its SICFR, pursuant to the requirements set forth in Law 26/2003 of 17 July 2003, which amended Law 24/1998 of 28 July 1998 on the Spanish securities market, and therefore may not be used for any other purpose. We accept no liability to any third parties other than the intended recipients of this report.

KPMG Auditores, S.L.

(Signed on the original in Spanish)

Julián Martín Blasco
Partner

23 February 2011

1. Introduction

Transparency requirements in the securities markets have changed significantly in recent years. In particular, financial reporting standards for listed entities have become more sophisticated, and their complexity has increased exponentially. To meet these new challenges, internal control systems must evolve as required, providing reasonable assurance as to the reliability of the financial information submitted to the market by listed entities.

Stakeholders are also putting increasing pressure on companies to enhance their commitment to protecting the interests of their shareholders, customers, employees, creditors, suppliers and society as a whole. These new demands have led companies to take a number of steps, including specific measures to strengthen the trust placed in all manner of financial information provided to parties outside the company.

When strengthening this trust, efficient internal control over financial reporting is crucial to:

- Provide reliable, quality financial information with the involvement of the entire organisation.
- Formalise and create a system for control over financial reporting, making improvements and boosting efficiency by using best practices.

Following a proposal from the CNMV (Spanish Securities Market Commission), an Internal Control over Financial Reporting Working Group (hereinafter ICWG) was created to prepare a number of recommendations on the Group's internal control over financial reporting (hereinafter ICOFR). The ICWG's work focused on three basic objectives:

- (i) To review the Spanish regulatory framework with respect to internal control over financial reporting;
- (ii) To establish a benchmark framework of principles and good practices with respect to ICOFR, including supervision of this system; and
- (iii) To help improve the transparency of information submitted by listed entities to the securities markets with respect to ICOFR.

Conscious of the interests of markets and stakeholders and the ICWG recommendations set forth in the document "*Control interno sobre la información financiera de las Sociedades cotizadas*" (Internal Control over Financial Reporting for Listed Companies – hereinafter the ICWG document) dated June 2010, Endesa, S.A. (hereinafter the Company or Endesa) has established a voluntary review process for its ICOFR, with the following main objectives:

1. To improve the efficiency and security of financial reporting processes, minimising the possibility of error.
2. To anticipate new internal control and corporate governance regulatory requirements, implementing international best practices as early as possible.
3. To place the Company as an internal control and corporate governance standard-bearer.

As a result of this process and to reinforce the transparency and quality of the public information on ICOFR issued by Endesa to the markets, Company management has prepared the following description of its ICOFR, following the 16 basic indicators recommended in Section III of the ICWG document. Company management also considered it pertinent to request a review of this information by an external auditor, based on the procedures for review by an external auditor set forth in Appendix 2 of the ICWG report.

It should be noted that although there are legislative initiatives which affect the obligations and/or recommendations concerning the information which listed companies must publish with respect to their ICOFR, there is currently no regulatory framework which stipulates the minimum requirements for companies when describing their ICOFR.

An overview of the Endesa Group's ICOFR is presented below, describing the main features of these controls based on the aforementioned 16 basic indicators. The external review report is also attached.

2. Overview of the Endesa, S.A. ICOFR

Financial reporting is a crucial tool for communicating with shareholders, investors, financiers and supervisory bodies, and is fed by information from a wide range of sources. In fact, almost all the Endesa Group's organisational units provided some form of relevant data for the preparation of this financial information. Compliance with information and transparency accuracy obligations is therefore not only the responsibility of the finance department, but also all the other units which comprise the Endesa Group within their respective areas of activity. Sharing this responsibility between the different areas is key to how Endesa's ICOFR works.

The Company's ICOFR is based on two kinds of controls:

- (i) general controls (comprising elements such as the audit committee, a code of ethics, internal audit, a suitable organisational structure, etc.); and
- (ii) controls within the different areas over relevant transactions with an impact on financial reporting.

The Company's ICOFR currently encompasses 227 organisational units (66 in Spain and Portugal and 161 in Latin America) and 911 processes (181 in Spain and Portugal and 730 in Latin America) with a major impact on the Group's financial reporting. A standardised documentation model has been prepared to break these organisational units and processes down into 6,689 control activities (1,428 in Spain and Portugal and 5,261 in Latin America). The person responsible for each of these control activities has been identified to ensure that all the records used to prepare the financial information are traceable.

The documentation generated with respect to the areas and processes includes detailed descriptions of the transactions related to the preparation of financial information. These descriptions cover this information from when first generated until it is recognised in the Company's accounts and reported externally, as well as the authorisation and processing stages. The documentation has therefore been prepared with the following basic aims:

- a) To identify critical processes directly and indirectly linked to the generation of financial information.
- b) To identify the risks inherent in these processes which could give rise to material misstatement in financial reporting (typically related to completeness, validity, recognition, cut-off, measurement and presentation).
- c) To identify and characterise the controls in place to mitigate these risks.

All of the Group's ICOFR documentation is included in a corporate IT tool. Information on the system is regularly updated to reflect any changes to transactions or control over financial reporting, and has sufficient traceability to be submitted to any kind of review.

The aim of this regular updating is to make use of the initial efforts made to improve the quality of existing controls and strengthen control over the mechanisms used to generate financial information.

Every six months Company management assesses Endesa's ICOFR. During this process each of the persons responsible for the controls identified in the corporate system that supports ICOFR assess the design and effectiveness of these controls. The model also has a further six-monthly verification process which is carried out by the audit department, and validates the assessment performed by the persons in charge of the controls.

Based on the conclusions reached from the ICOFR assessment process, every six months Company management concludes on the adequacy of the Endesa Group's internal control over financial reporting, and establishes any action plans required to rectify any weaknesses or act on any areas for improvement highlighted during the aforementioned assessment process.

The results of the six-monthly assessment process are analysed by the Company's Audit and Compliance Committee, by order of the board of directors, which is ultimately responsible for ensuring a suitable internal control system within the Group.

3. Basic indicators

The entity's control environment

1. *What bodies and/or functions are responsible for: (i) devising and maintaining an appropriate and effective ICOFR; (ii) its implementation; and (iii) its supervision?*

Board of Directors

Ultimate responsibility for devising and maintaining an appropriate ICOFR lies with the Endesa Board of Directors, a function which it has delegated to the Audit Committee.

Audit and Compliance Committee:

Section 6 of article 14 of the regulations of the Endesa Board of Directors states that the main function of the Audit and Compliance Committee is to monitor good corporate governance and transparency throughout the Company's activities, with

respect to economic and financial issues, internal and external audit and compliance.

This Committee has therefore been entrusted with mapping and supervising the financial reporting process and the Company's IT and internal control systems, including the following functions:

- To supervise the preparation process and completeness of financial information on the Company and, where applicable, the Group, reviewing compliance with regulatory requirements, the composition of the consolidated group and the correct application of accounting criteria.
- To regularly review the internal control and risk management systems so that the main risks are adequately identified, managed and reported.
- To oversee the independence and efficiency of internal audit, propose the recruitment, appointment, renewal and removal of the person in charge of this area, and to receive regular information on the activities carried out in this regard, ensuring that senior management takes into consideration the conclusions and recommendations set forth in the internal audit department's reports.

Members of the Audit and Compliance Committee are appointed in accordance with their knowledge and experience of accounting, audit or risk management issues, and they are kept up-to-date with any regulatory changes in these areas.

The Audit Committee has an internal audit function which, under the Committee's supervision, ensures that IT and internal control systems work properly, assessing the efficiency of ICOFR and regularly reporting on any weaknesses it has detected, as well as the planned schedule for proposed measures to correct these weaknesses.

Transparency Committee:

In 2004 Endesa created its Transparency Committee, made up of the Company's main directors and including the Executive Management Committee (composed of the Chief Executive Officer and General Management for Spain and Portugal, Latin America, Strategy and Development, Legal Affairs, Organisation and Human Resources, Economic Financial, Systems and Telecommunications, Purchasing and the General Secretary to the Board), along with other members of Company management directly involved in the preparation, verification and disclosure of financial information, as well as the Internal Audit General Manager. The Transparency Committee is chaired by the CEO.

The main objective of this Committee is to ensure compliance with and correct application of the general principles governing financial reporting (confidentiality, transparency, consistency and responsibility), assess events, transactions, reports and other relevant issues reported externally, and determine the format and deadlines for presenting public information.

The functions of the Transparency Committee also include assessing the conclusions issued by Endesa's Economic Financial General Management with respect to compliance and effectiveness of internal control over financial reporting and internal procedures for disclosing information to external stakeholders, designing corrective/preventative measures in this respect, and informing the Board's Audit and Compliance Committee of this work.

Endesa's Economic Financial General Management:

Endesa's Economic Financial General Management supports the Transparency Committee by carrying out the following duties related to internal control over financial reporting:

- Propose financial information management policies to the Transparency Committee for approval.
- Assess and report to the Transparency Committee on the effectiveness of controls, as well as their operation and, where applicable, any potential breaches of approved internal control policies, based on documents from control managers and reports from Audit General Management.
- Establish and distribute the necessary procedures for internal control over financial reporting.
- Supervise compliance with the internal control over financial reporting and internal controls and procedures for external reporting, and issue of a regular report reflecting the assessment of system effectiveness for presentation to the Transparency Committee.

Internal Control over Financial Reporting Unit

As part of Economic Financial General Management, the Internal Control over Financial Reporting Unit has the following functions:

- To inform the various Endesa companies and organisational areas of the approval of ICOFR policies and procedures
- To maintain and update the internal control over financial reporting model
- To update documentation on procedures and controls in place at any given time
- To define the sign-off processes for assessment of the effectiveness of controls and procedures defined in the ICOFR model
- To maintain the system which supports the ICOFR model

All aspects of internal control over financial reporting and disclosures to external parties are regulated by the corporate standard on "internal control over financial reporting and internal controls and procedures for external reporting", which is applicable to all Endesa companies. The standard establishes operating principles and responsibilities for implementing and maintaining internal controls over financial reporting and internal controls and procedures for public disclosures of financial information. The goal is to ensure reliable information and that the reports, facts, transactions and other relevant issues are reported externally in a timely and appropriate manner.

The general principles of the aforementioned standard are:

- **Principle of reliability:** Obligatory and voluntary information which is reported must be true, accurate, complete and suitable, based on the facts and circumstances which are known at any time.

- **Principle of consistency:** Obligatory and voluntary information which is reported must be understandable and consistent in its presentation with respect to information previously disclosed to external parties.
- **Principle of transparency:** All relevant information should be immediately disclosed in accordance with established procedures and applicable legislation.
- **Principle of control over information flows:** Financial (and related) information should flow in a controlled manner from the areas where it is generated or obtained (businesses or corporate areas) to the Transparency Committee, thereby ensuring it is disclosed to external sources (where applicable).
- **Principle of guarantee:** Each business and corporate area must guarantee the reliability of the financial information (and related information) generated or obtained within its area of activity.
- **Principle of regulatory compliance:** The preparation, treatment and disclosure of financial and related information should comply with prevailing domestic and international regulations, particularly those which regulate the markets in which the securities issued by Endesa and its subsidiaries are listed.
- **Principle of responsibility:** Each business and corporate area is responsible for applying these general principles within their area of activity, as well as for preparing and applying their own internal control procedures that are consistent with this regulation.

The internal control over financial reporting function is carried out within Endesa's Economic Financial General Management, based on the information flow risks represented by any circumstances that may impede or hinder the reliable procurement, treatment and disclosure of this information. This function is based on the Endesa risk map and internal controls, which make up the policies and procedures used to identify, assess, process and record financial and non-financial information in a consistent, reliable and timely manner.

Endesa's internal control over financial reporting is fully assessed and validated every six months. Based on these two reviews, the Audit and Compliance Commission has entrusted Audit General Management with supervision of the system, assessing its design and effectiveness and informing the Committee of weaknesses detected, as well as the schedule for any corrective measures proposed.

2. *Which departments and/or mechanisms are responsible for designing and reviewing the organisational structure, and for clearly defining responsibilities and authority in this respect, adequately assigning tasks and functions and ensuring that there are sufficient procedures for this information to be correctly transmitted to the entity (particularly with respect to the preparation of financial information)?*

The design and review of the organisational structure, as well as the definition of areas of responsibility and authority, are carried out by the Board of Directors

through the CEO and the Appointments and Remuneration Committee (which is part of the Board).

The CEO and Appointments and Remuneration Committee allocate tasks and functions, ensuring that duties are adequately segregated and that there are coordination systems between the different departments to guarantee that operations are efficient.

The process for determining the organisational structure is regulated by the corporate standard on "organisational changes, appointments and management remuneration", which applies to all Group companies. According to this regulation, Endesa's Organisation and Human Resources General Management regularly assesses the entity's organisational structure, proposing any changes to the corresponding Company bodies based on business or industry requirements and considering adequate segregation of duties.

Along with the respective functional areas, the Organisation and Human Resources General Management is also responsible for analysing and determining Group processes, including those related to the preparation of financial information.

A detailed organisational chart showing all the Group's functions is published on the corporate intranet, and is available to all Endesa employees.

3. Whether the following exist (particularly with respect to the preparation of financial information):

- Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recording of transactions and preparation of financial information), body responsible for analysing breaches and proposing corrective measures/fines, etc.*
- Whistle-blowing hotline, which allows the audit committee to be informed of any financial or accounting irregularities, as well as any breaches of the code of conduct and irregular activities with respect to organisation, indicating any issues of a confidential nature.*
- Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information and the assessment of ICOFR, which should cover (as a minimum) accounting standards, audit, internal control and risk management.*

Codes of conduct

Endesa has the following documentation on internal standards governing conduct:

Code of Ethics

The Endesa Group has a code of ethics approved by the Board of Directors, which sets forth the ethical commitments and responsibilities with respect to business management and activities assumed by the collaborators who work for Endesa, S.A. and its subsidiaries (both management and regular employees).

This code of ethics comprises:

- The general principles governing relations with implicated parties and defining the values to be followed by Endesa in its activities.

- Conduct criteria for relations with all kinds of parties, which provide the specific directives and standards to be followed by Endesa's collaborators to respect the general principles and eliminate the risk of non-ethical conduct.
- The implementation mechanisms, which describe the tasks of the Audit and Compliance Committee with respect to implementation and control of the code of ethics, the duties of Internal Audit General Management, communication and training.

The principles and provisions of the Endesa code of ethics are aimed at the members of the Board of Directors, the Audit and Compliance Committee and the other control bodies of Endesa, S.A. and the remaining Group companies, as well as management, employees and collaborators linked to the Group through any kind of contract (including one-off or temporary contracts).

The general principles set forth in the code of ethics include "information transparency and completeness", which states that *"Endesa collaborators should provide complete, transparent, comprehensible and precise information so that, when working with the Company, the parties involved can make autonomous and informed decisions with regard to the interests at stake, the alternatives available and the relevant consequences"*.

Zero Tolerance of Corruption Plan

The Zero Tolerance of Corruption Plan, which is approved by the Endesa Board of Directors, requires all Group employees to be honest, transparent and fair when carrying out their duties. These commitments are also required of all other related parties, i.e. those individuals, groups and entities that help meet Endesa's goals or which are involved in the activities carried out to meet these goals.

In compliance with the tenth principle of the Global Compact¹, to which Endesa has subscribed, *"Businesses should work against corruption in all its forms, including extortion and bribery"*. Endesa rejects all forms of direct and indirect corruption, and has a programme to fight against corruption.

Senior management and management bylaws and employee code of conduct

In 2003 the Endesa Board of Directors approved specific regulations applicable to certain groups of employees, specifically the "senior management bylaws" and "management bylaws", which apply to the Group's senior management and management personnel, respectively. In 2003 the Board of Directors also approved the employee code of conduct, which applies to all Group employees.

The aim of these documents is to establish the way in which the members of the various groups concerned should act and behave, including the requirement to *"ensure that all the organisation's books, records and accounts for which they may be responsible reflect the complete, precise and up-to-date nature and situation of the transactions"*.

¹ Action programme created by the United Nations in July 2000, at the initiative of its Secretary- General, to involve the business world in a new way of collaborating with the UN by adhering to ten universally accepted principles in the areas of human rights, labour protection and environmental issues (www.unglobalcompact.org).

In addition to the aforementioned bylaws and codes, in 2006 the Company also approved its regulation for the application of management bylaws, the employee code of conduct and incompatibility/anti-competition agreements. This regulation is applicable to those Endesa bodies with powers relating to the application of these standards, the powers of the bodies in question, their behaviour criteria and the procedures for controlling and handling any breaches.

The regulation deals with behaviour criteria relating to:

- The prohibition of commercial competition
- Ban on rendering services to other Endesa companies
- Exclusive dedication
- Conflict of interest (purchase of assets, collaboration with suppliers and other circumstances)

All of these documents are published as internal regulations on the corporate intranet, with the aim of ensuring that everyone related to the Group acts in accordance with the ethical values reflected therein throughout all their activities linked to Group activity. These include actions related to the reliability of financial information and compliance with prevailing regulations, in accordance with the directives issued by the Board of Directors.

Whistle-blowing Hotline

Since July 2005 Endesa has had a whistle-blowing hotline which is accessible through its external website (and internally for its employees), so that all the Group's stakeholders can securely and anonymously report any irregular, unethical or illegal conduct which they have detected in the Company's activities. This hotline is available in the five languages of the countries in which Endesa operates.

The procedure for using this channel ensures confidentiality, as the information received is restricted and managed by an independent external company. Internal Audit General Management has established a number of roles and authorisation profiles which grant access to the aforementioned information by certain individuals in this department.

The whistle-blowing hotline classifies the complains received into 13 business management fields, based on aspects set forth in the Endesa code of ethics, allowing compliance with conduct principles to be adequately monitored during internal audits.

As well as this hotline the Company also has other communication channels, including telephone, letters or e-mails addressed to any member of Internal Audit General Management or third parties.

Complaints submitted via the whistle-blowing hotline are regularly reported to the Group's Audit and Compliance Committee, which is notified of the receipt and result of each investigation and the measures implemented in the event that the complaint is sustained.

Training programmes

Endesa's Organisation and Human Resources General Management and Economic Financial General Management jointly prepare training plans for all personnel involved in preparing the Group's financial statements. These plans include permanent updates based on business and regulatory developments relating to the activities carried out by the different Group companies, as well as knowledge of International Financial Reporting Standards and trends in principles concerning internal control over financial reporting.

In 2010 Endesa's Economic Financial General Management provided 60,000 hours of training, 46% of which related to the acquisition, updating and refreshing of financial knowledge such as audit and accounting standards, internal control and risk management and control, and regulatory and business aspects which need to be understood for adequate preparation of the Group's financial information. The remaining training hours focused on management skills, health and safety in the workplace and information technology.

The 2011 training plan includes 67,000 training hours for this group, with greater focus on the market and financial knowledge areas (approximately 55% of the total).

Additionally, when required, specific training sessions are organised on issues related to the process for preparing and controlling financial information. These courses are for non-Economic Financial General Management personnel who are directly or indirectly involved in supplying data used to prepare financial information.

Assessment of financial information risks

4. *What are the main features of the process to identify risks (including the risk of misstatement or fraud), considering the following:*

- *Whether the process exists and is documented.*
- *Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, disclosure and comparability, and rights and obligations), whether it is updated and with what frequency.*
- *The existence of a process to identify the scope of the consolidated group, considering aspects such as the possibility of complex corporate structures or special purpose vehicles.*
- *Whether the process considers the impact of other risk types (operating, technological, financial, reputation, environmental, legal, etc.) with respect to their effect on the financial statements.*
- *Which of the entity's governing bodies supervises the process.*

The process for identifying risks to financial information is documented in the corporate standard on "internal control over financial reporting and internal controls and procedures concerning external reporting". This regulation includes a risk map for financial information flows which is used to identify any circumstances that may impede or hinder the procurement, treatment and disclosure of information in a reliable, timely manner.

Risk types are classified as follows:

Accounting risks - These are risks which affect the reliability of financial information in terms of treatment of the accounting records and breaches of accounting principles, and relate to the following areas:

- Recognition
- Completeness
- Standardisation of criteria
- Cut-off of operations
- Validity
- Presentation
- Suitability of the information
- Measurement

Personnel management risks - Personnel management risks include the risk that management and employees are not correctly managed, that there is no defined control culture, that they do not know what to do or how to act when there is a problem, that they work outside their areas of authorisation, that they do not have the resources, training or tools required to take decisions, or that they are not properly motivated. These risks are related to the following areas:

- Control culture
- Knowledge and skills
- Motivation
- Internal fraud
- Human error

Technological and reporting process risks - This includes the risk that the information technology used for financial reporting does not efficiently and effectively support current and future needs, does not function as planned, compromises the completeness and reliability of the information or exposes the Company's significant assets to potential loss or abuse. These kinds of risks are related to the following issues:

- Availability and capacity
- Access security
- Cost of making information available on time

Process risks - Process risks mainly arise from the following issues:

- Quality of the design and operation of processes and functions
- Resource availability
- Effectiveness
- Efficiency

Strategy and structure risks - These are risks which could lead to inefficiency and ineffectiveness within the Group's structure in terms of quality, time and cost objectives when procuring financial information, and cover the following issues:

- Definition of structure and objectives
- Clarity of reporting lines
- Compliance with internal standards and policies
- Effectiveness of communication and information flows

Environment risks - Environment risks arise as a result of external factors that may lead to significant changes in the foundations supporting the internal control over financial reporting objectives and strategies of the Company. Environment risks are related to the following issues:

- Legal and regulatory changes
- Safeguarding of assets
- Technological obsolescence
- External fraud

In accordance with the Endesa Group's internal control over financial reporting, every six months and as part of the process to assess ICOFR operations, these risks are updated if required (on approval from the Transparency Committee).

Consequently, and as previously mentioned, the process to identify and update financial information risks covers the following financial reporting objectives:

- Existence and occurrence
- Completeness
- Measurement
- Presentation, disclosure and comparability
- Rights and obligations

This process to identify and update financial information risks also considers the impact that the rest of the risks included in the Group's risk map may have on the financial statements, mainly those of an operating, regulatory, legal, environmental, financial and reputational nature.

This risk identification process is overseen by the Transparency Committee and the Audit and Compliance committee, as part of their duties to supervise the assessment of the conclusions on the ICOFR model described in basic indicator 1 of this report.

Identification of the consolidated group

The Group keeps a corporate register which is continually updated, and includes all of Endesa's direct and indirect interests (of any nature), as well as any entity over which the Group can exercise control, regardless of the legal means used to obtain this control, including special purpose and other vehicles.

This corporate register is managed and updated based on a procedure regulated by the corporate standard on "management of the Endesa corporate register".

The Endesa consolidated group is determined each month by Economic Financial General Management, using the information available in this register and in accordance with the criteria set forth in International Accounting Standards (hereinafter IAS) 27, 28 and 31, SIC Interpretation 12 and other local accounting regulations. Group companies are informed of any changes to the consolidated group.

Control activities

5. Documentation describing activity and control flows (including those relating to fraud risks) for the different types of transactions that could have a material impact on the financial statements, including the procedure used for the close and the specific review of relevant judgments, estimates, measurements and projections.

Endesa's internal control over financial reporting model based on the COSO model (Committee of Sponsoring Organisations of the Treadway Commission of the United States), which provides reasonable assurance of compliance with the four main objectives included in the model:

- Effectiveness and efficiency of operations
- Safeguarding of assets
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The starting points of the system are the Entity Level Controls (hereinafter ELCs) and Company Level Controls (hereinafter CLCs), which describe Endesa's policies and directives designed to protect the control system at Group level. These are structural elements within the control system, work across the board for all divisions/companies and are directly assessed by senior Endesa management.

Management controls focus on the following five areas:

- Supervision
- Information and communication

- Control activities
- Risk assessment
- Control environment

They guarantee that there is adequate internal control within Endesa, and act as a mitigating control when required.

Endesa has created a map of business or corporate processes, which is also shared by all Group companies. The macro-processes which group together all Endesa group activities are as follows:

- Commercial management
- Human resources
- Supplies, maintenance and investment
- Energy settlements
- Cash flow and finances
- Legal, property and risk management
- Trading
- Accounting management
- Information systems

The nine Endesa macro-processes are currently divided into a total of 911 processes, adapted to the features of the business operations of each country and affecting a total of 227 organisational units within the Endesa Group.

Through the Internal Control Unit, Endesa's Economic Financial General Management manages and continuously updates all the flowcharts for each of the processes. Any organisational change involves a review of the control model so that any impact can be assessed and the changes required to ensure its operating continuity can be implemented. The basic components identified for each process are:

- **Control objectives.** These are control requirements which must be met for each function in the business or process cycle, in line with the definition of internal control. They seek to verify and assess the accuracy of accounting and non-accounting information, and to ascertain whether all the financial information on the company is being distributed to its users, covering the accounting assertions of completeness, cut-off of operations, presentation, recognition, validity and measurement.
- **Risks.** This is the possibility that an event or action may affect the organisation's capacity to meet its financial reporting objectives and/or successfully implement strategies. As indicated in section 4 above, Endesa has a risk map (which also includes fraud risk).

- **Control activities.** These are policies, procedures and practices applied by Company personnel, its applications and other resources established to ensure that control objectives are met and risk-mitigating strategies are implemented. Process level controls (hereinafter PLCs) should be incorporated into the way in which processes function, are used to appropriately administer risk and are focused on the prevention, detection and correction of risk. In the specific case of IT systems, control activities are known as general information technology controls (hereinafter GITCs). Depending on their design control activities can be preventative or detective, and either manual (person-based) or automatic (based on IT systems).

PLCs and GITCs are the foundations on which the entire control model is based, and cover the following issues:

- Integrity and ethical values
- Commitment to professional competence
- Management philosophy and style
- Organisational structure
- Delegation of authority and responsibility
- Human resources policies and practices

During the normal course of business PLCs and GITCs ensure that, for all items in the consolidated financial statements, Endesa's control objectives are met in accordance with the corporate standard on "internal control over financial reporting and internal controls and procedures for external reporting".

For all of Endesa's processes a total of 4,411 control objectives, 4,961 risks and 6,689 process control activities have currently been identified. There are also 611 management controls which affect 67 organisational units. Consequently, 90% of the main consolidated financial information is covered (all assets, sales, earnings before tax and debt).

All of the information on the internal control model is documented in the management internal control (hereinafter MIC) IT tool.

The internal control unit is the only part of the company responsible for managing the internal control model's central catalogue, which includes the following features:

- Catalogue of all processes with control objectives and risks
- Accounts plan with all the assertions associated with each item
- Catalogue of management controls
- Definition of the Company's hierarchical structure (organisational units)
- Assignment of roles to each of the MIC tool users
- Central task planning: assessment, validation, testing and signatures

Internal control system operations are divided into the following stages, which are centrally planned for all Endesa Group companies:

- **Assessment of control activities:** The assessor carries out tests to verify and assess the correct application of all control activities. He/she identifies and reports any weaknesses so that they can be corrected.
- **Validation of control activities:** The person in charge of the processes validates each of the control activities assessed, verifies weaknesses detected so that they can be corrected and coordinates the corresponding action plan with the Internal Control Unit.
- **Signature of the organisational units:** The person in charge authenticates the assessment and validation of the control activities, and is responsible for the actions required to resolve the weaknesses included in the action plan.
- **Assessment of management controls:** These are assessed by the persons appointed for this task, and do not include specific validation.

ELCs and CLCs are assessed by senior management, and PLCs are assessed at operating level before being submitted to senior management for a successive sign-off process.

All of the above stages are permanently monitored and supported by the Internal Control Unit. The conclusions reached on compliance and effectiveness are reviewed and assessed by the Endesa internal audit department and the Economic Financial General Management. This department presents the conclusions to the Transparency Committee, which assesses and approves them before submitting them for analysis and conclusion by the Audit and Compliance Committee, along with the ICOFR verification report issued by Internal Audit General Management.

A specific action plan is created for each of the control weaknesses detected in the internal control system. The internal control unit monitors, controls and reports to the Transparency Committee and Audit and Compliance Committee, until the issues are fully resolved.

The specific review of relevant judgments, estimates, measurements and projections to quantify certain assets, liabilities, income, expenses and commitments recognised and/or disclosed in the annual accounts is performed by Economic Financial General Management with the support of the rest of the Company's general management. Assumptions and estimates based on business performance are reviewed and analysed in conjunction with the corresponding management areas of each business.

6. Internal control policies and procedures for IT systems (including access security, control over changes, implementation of changes, operating continuity and segregation of duties) which support the entity's relevant processes with respect to the preparation and publication of financial information.

Endesa's Systems and Telecommunications General Management is responsible for IT and telecommunications systems for all the businesses and countries in which the Group operates. Its numerous and diverse duties include the definition and monitoring of security policies and standards for applications and infrastructures, such as the information technology internal control model.

Endesa's internal control model considers those IT processes (including the environment, architecture and infrastructure of the Company's information technology and all the applications that affect transactions) which have a direct impact on the main business processes, and thereby affect financial information and the Company's accounting closes. These controls can be manual or carried out automatically by the IT programs themselves.

Endesa has an internal control model for its IT systems, particularly its financial information system (hereinafter FIS), which aims to ensure the quality and reliability of this information during the close (thereby also guaranteeing the quality and reliability of the information reported to the markets).

The IT systems internal control model comprises six processes:

- Physical security in data processing centres (hereinafter DPCs)
- Logical security of applications
- Project management and production support
- Management of operations and service level agreements (hereinafter SLAs) with suppliers
- Information backup and recovery
- Communications infrastructure projects

These processes are then divided into sub-processes, which have the features and focus required by the financial system. There are also specific management controls (known as ELCs) for Endesa's information technology area.

Endesa's internal IT control processes comprises the control activities required to cover the risks that may arise in the following IT systems management areas, including those related to financial reporting systems and processes:

IT environment

- Organisational chart and description of the duties of Systems and Telecommunications General Management
- Systems map
- Telecommunications network map

Application change management

- Management of the demand for development and functional improvements
- Specification, authorisation and monitoring of change requests
- Development of software and systems infrastructures
- Performance testing during the implementation process

- Production of applications
- Documentation and training

Systems operation and use

- Management of operational activities
- Management of backup copies
- Incident management
- Contingency and recovery plans in the event of major incidents, when required
- SLAs

Physical and logical security

- Management of security activities
- Logical access security
- DPC physical security

Endesa also has an "information security" corporate standard, which establishes and defines the Company's principles and bodies in charge of information security and the management of decisions concerning critical financial information.

In 2007 Endesa created the information security function to respond to requirements imposed by legislation and arising from the technological and market environments. During the same year the Company also created the decision rights management function to guarantee legislative compliance in the financial area, as well as establishing functional incompatibilities to ensure that one single person cannot dominate a critical process.

Information security is the function which protects the information assets owned by each company, with the aim of reaching and maintaining desired security levels and correctly applying decision rights, thereby reducing internal fraud.

The management of decision rights and functional incompatibilities aims to identify, manage and control the specific capacities that allow decisions to be made within the business environment.

The main principles of Endesa's information security policy are:

- Information and knowledge are strategically valuable assets.
- Information security is everyone's responsibility: those who generate it, those who process it and those who access it.
- Awareness of all the information managed by the Company, its importance and its vulnerability.

- Information on individuals belongs exclusively to individuals.
- The value of information lies in its accuracy: it should be complete.
- Information credibility lies in the authenticity of its source.
- The most critical information for the business should always be available.
- The distribution of confidential information is a serious threat against a company and its shareholders.
- Secure information technology, communication and infrastructures are a basic prerequisite for secure information.
- The cost of security measures should be proportionate to the value of the information they protect.

The corporate procedure on "criteria to establish the security of information assets" stipulates the methods used to identify, classify, assess and analyse the risks to which information may be exposed, as well as the fundamental obligations to be taken into consideration by each of the organisational units involved in the management of information assets.

The information security management process forms part of an ongoing improvement process which allows, among other factors, security to remain at optimum levels. The ultimate goal of this process is to maintain security levels within acceptable operating thresholds for the organisation, implementing and developing those controls which contribute most effectively to reducing risk.

Endesa's own methodology allows information to be identified, classified and assessed in a standardised manner, so that the risks to which it is exposed can then be analysed and action plans defined so that each information asset can reach a level deemed acceptable by the organisation.

7. Internal control policies and procedures for supervising activities outsourced to third parties, as well as the assessment, calculation and measurement of activities entrusted to independent experts which may have a material impact on the financial statements.

When Endesa outsources an activity which is relevant for the issuing of the financial statements, the supplier is required to obtain certification from an independent third party of recognised solvency to guarantee that this activity is carried out in an environment which includes internal control over financial reporting. In particular, suppliers are requested to obtain a Type II report from a services auditor, prepared in line with the SAS 70 standard issued by the Public Company Accounting Oversight Board (hereinafter the PCAOB). This report allows Endesa to verify whether the control objectives of the supplier and the control activities which support these aims have worked over the relevant period.

When the Company employs the services of an independent expert, it ensures the professional's technical and legal competence and training. With respect to the report issued by this expert, the Group has implemented a number of control activities, and also has trained personnel who validate the reasonableness of the conclusions set forth therein.

The Company also has an internal procedure for contracting external advisors, which requires certain levels of approval depending on the amount involved, including (where applicable) approval from the Company's CEO. The results or reports issued with respect to contracting in the accounting, tax or legal areas are supervised by the heads of Economic Financial General Management and Legal Affairs General Management, as well as any other departments if deemed necessary.

8. Procedures for reviewing and authorising financial information and description of the Company's internal control over financial reporting to be published in the securities markets, indicating the persons responsible.

The Group issues financial information to the securities market every quarter. This information is prepared by the Economic Financial General Management's financial unit which, during the close, carries out a number of control activities (see point 5 above) to ensure the reliability of the information.

The management control unit, which forms part of the Economic Financial General Management, also analyses and supervises the information prepared.

The Economic Financial General Manager analyses the reports received, provisionally approving the financial information which is then passed on to the Transparency Committee.

The Transparency Committee analyses and discusses the information submitted by Economic Financial General Management and, once approved, passes this information on to the Audit and Compliance Committee.

The Audit and Compliance Committee supervises the financial information submitted. During accounting closes which coincide with the end of a six-month period, the Audit and Compliance Committee is also provided with the information prepared by the Group's external auditors showing the results of their work.

Finally, the Audit and Compliance Committee informs the Board of Directors of its conclusions on the financial information presented so that, following approval by the Board, it can be published in the securities markets.

The report on the description of ICOFR is prepared by the Economic Financial General Manager, and is presented to the Transparency Committee. Once approved by the latter, this report is then reviewed and approved by the Audit and Compliance Committee, before being approved by the Board of Directors and published in the securities markets.

Information and communication

9. A specific function to define and update the Company's accounting policies (the accounting policies area or department), as well as to resolve any queries or conflict arising from their interpretation, ensuring smooth communication with the persons in charge of these operations within the organisation.

Responsibility for application of the Group's accounting policies throughout all the geographical areas in which Endesa operates is centralised in the Group's Economic Financial General Management.

Within this department there is an accounting policies unit, which has the specific function of analysing compliance with International Financial Reporting Standards endorsed by the EU (hereinafter IFRS). The specific functions of this unit are:

- To define the Group's accounting policies.
- To analyse the individual operations and transactions carried out or planned by the Group, to determine that their accounting treatment is in line with Endesa's accounting policies.
- To monitor new draft regulations created by the IASB, new standards approved by this body and the process for recognising these standards at EU level, determining the impact of their implementation on the Group's accounting standards.
- To answer any consultations submitted by any Group company with respect to application of the Group's accounting policies.

The Accounting Policies Unit informs all persons in charge of preparing the financial statements at all levels of the Group of any regulatory amendments, answering any queries that may arise and collecting from Group companies the information required to ensure coherent application of the Group's accounting policies and determine the impact of the application of new accounting regulations.

When the application of new regulations is particularly complex, Endesa's Economic Financial General Management informs the external auditors of the conclusions of the accounting analysis performed by the Group, requesting their position on these conclusions.

10. An updated accounting policy manual which is distributed to the units through which the entity operates.

The Group's accounting policies are based on IFRS and are documented in the Endesa Group accounting manual. This document is regularly updated and distributed to the persons in charge of preparing the financial statements of the different Group companies.

11. Mechanisms for gathering and preparing financial information using standard formats, which are applied by all the entity/group units and which support the main financial statements and the notes thereto, as well as detailed information on ICOFR.

The Endesa Group has an IT tool which covers the reporting requirements of its individual financial statements, as well as facilitating the consolidation process and subsequent analysis. This tool brings together, in a single system, all the accounting information on the individual financial statements of the Group subsidiaries, as well as the notes and disclosures required to prepare the annual accounts. The system is managed centrally, and uses a single accounts plan.

Information is automatically uploaded into this consolidation system from the FIS (transactional), which is also unique and implemented throughout almost all the Group's companies.

ICOFR is, in turn, supported by a single IT tool used by the entire Group (centrally managed), which is used to obtain all the information required to reach conclusions on ICOFR operations.

Supervision of system operations

12. Whether there is an internal audit function which supports the audit committee in its supervision of the internal control system, including ICOFR.

The duties carried out by Endesa's internal audit department include supporting the Audit and Compliance Committee in its supervision of the internal control system. In particular, and with respect to ICOFR, this department performs six-monthly reviews on the adequate design and effectiveness of control over financial reporting, and issues a report highlighting the possible internal control weaknesses identified for presentation to the Audit and Compliance Committee, along with the action plans adopted by the Company to mitigate these risks.

13. Whether there is a discussion process whereby the auditor (in accordance with the technical standards governing the audit field), the internal audit department and other experts can inform senior management, the audit committee and the entity's directors of the significant internal control weaknesses detected during the review of the annual accounts, or any other processes entrusted to them. Also, report as to whether there is an action plan to correct or mitigate risks identified.

The internal audit department regularly informs senior management and the Audit and Compliance Committee of any significant internal control weaknesses identified during its six-monthly reviews of the Company's ICOFR and the internal process audits performed during the year, as well as the progress made with respect to implementation of the action plans created to mitigate these risks.

The Group's auditor has direct access to Endesa senior management, and holds regular meetings to obtain the information required to carry out its work and report any control weaknesses it has detected. With respect to this last issue, each year the external auditors submit a report to senior management detailing the internal control weaknesses brought to light during their work.

The auditor also reports to the Audit and Compliance Committee once every six months with the conclusions drawn from its review of the Group's accounts, including any issues it deems relevant. The auditor also issues an annual report to this Committee, reflecting the internal control weaknesses brought to light during the course of its work. This report includes comments from Group management and, if applicable, the action plans implemented to rectify the internal control weaknesses detected.

14. A description of the scope of the ICOFR assessment performed during the year, and the procedure whereby the person responsible for this assessment reports his/her results, whether the entity has an action plan which details the corrective measures taken, and if the impact on the financial information has been considered.

Every six months the Economic Financial General Management Internal Control Unit follows up the process for assessing and certifying the design and operation of ICOFR, submitting its results to the Transparency Committee, the body responsible for ensuring correct internal control over the information issued to the markets.

The Internal Control Unit receives the assessment of the Company's ELCs/CLCs, PLCs and GITCs, to verify:

- Whether there have been any changes to the processes, that the identification of control activities has been updated and that the new control activities adequately cover the process control objectives.
- Whether all existing weaknesses in the design or effectiveness of the control system have been identified. "Weakness" is understood as any incident that renders the control system unable to reasonably assure its capacity to acquire, prepare, summarise and report the Company's financial information.
- Whether the actual and potential impacts of the aforementioned weaknesses have been assessed and, if applicable, whether compensatory or mitigating control activities have been established to ensure the reliability of the financial information, despite the presence of these weaknesses.
- The presence of any material weaknesses which affect information reliability, so that the markets can be subsequently informed thereof.
- The existence of action plans for each weakness identified.

The process also identifies and reports all instances of fraud (no matter how insignificant) involving management or employees who take part in the processes with an impact on financial reporting.

As indicated in point 1 of this report, every six months the Transparency Committee is informed of and approves the assessment of the model, the rating of weaknesses and the progress of action plans.

At 31 December 2010 there are no material weaknesses in the Company's ICOFR. The 2010 assessment process analysed 611 management controls (101 in Spain and 510 in Latin America), all of which function as planned. Internal control weaknesses and opportunities for improvement were detected for certain process controls which do not have a significant impact on the quality of financial information, leading to a total of 24 action plans for 6,689 control activities. Seven of these action plans are in Spain (1,428 control activities), while the remaining 17 are in Latin America (5,261 control activities).

In light of the above Company management understands that, over the period from 1 January to 31 December 2010, the internal control over financial reporting model was effective, and that the controls and procedures established to reasonably assure that the information disclosed outside the Company is reliable and adequate were also effective.

15. Description of the ICOFR supervision activities performed by the audit committee.

As reflected in its annual plan, Audit General Management has been appointed by the Audit and Compliance Committee to supervise the ICOFR, assessing its design and effectiveness. This activity takes the form of two six-monthly reviews (30 June and 31 December), the results of which are reviewed by the Audit and Compliance Committee.

Furthermore, over the course of the year the progress of the action plans implemented by the Company to rectify the weaknesses identified is also monitored, and the Audit and Compliance Committee is informed of this progress.

Finally, every six months Economic Financial General Management presents the Audit and Compliance Committee with its conclusions on the assessment of the ICOFR model, as well as the progress made in implementing the action plans that have arisen as a result of assessments from prior six-month periods.

16. Whether the ICOFR information submitted to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report. If not, the reason for this should be reported.

In accordance with the ICWG recommendations included in the document on *Internal control over financial reporting for listed companies* at June 2010, Endesa issued this report for the first time in 2010.

Endesa also considered it important to request that the external auditor issue a report reviewing the information described by the Company in this ICOFR report for 2010, based on the "procedures for the external auditor's review" set forth in Appendix 2 of the ICWG document. As previously mentioned, there is no current regulation which establishes minimum requirements for companies when describing their ICOFR.

Any future regulations issued with respect to the ICOFR information to be published by listed companies may result in changes to the information included in this report with respect to disclosure/information requirements.

22 February 2011