



Borja Acha Besga  
Secretary of the Board of Directors

Madrid, 10 May 2022

Pursuant to Article 227 of the Spanish Securities Market Act, Endesa, S.A. hereby reports the following relevant information:

### **Related-Party Transactions Reporting**

Endesa reports related-party transactions entered into with its controlling shareholder Enel S.p.A. and its corporate group in accordance with the provisions of articles 529 unvicies and 529 tervicies of the Corporate Enterprises Act, which establishes the obligation of companies to publicly report, no later than the time they are entered into, the related-party transactions carried out by it or its subsidiaries with the same counterparty in the last twelve months, and which amount to or exceed: (a) 5 per cent of the total assets or (b) 2.5 per cent of the annual turnover.

In the session on 9 May 2022, the Board of Directors approved the related-party transactions described below, exceeding the limit established in article 529 unvicies of 2.5% of annual turnover.

#### **I. LIST OF RELATED PARTY TRANSACTIONS CARRIED OUT WITH THE ENEL GROUP**

1. Contract between Enel Green Power S.P.A and Enel Global Thermal Generation S.R.L for the provision of engineering services in the following Endesa projects:
2. Licence agreement for the use of the Grid Blue Sky platform, between Endesa Distribución Redes Digitales S.L. (EDRD) and Enel Global Infrastructure and Networks S.r.l.
3. Sale of LNG to Sociedad GNL Chile, S.A. by Endesa Energía, S.A.U
4. LNG sales between Enel Global Trading Spa and Endesa Energía, S.A.U
5. Formalisation of a credit line and a long-term loan between Enel Finance International and Endesa.
6. Renewal of the Intercompany Current Account Contract between Endesa Financiación Filiales S.A. And Enel Iberia S.R.L



## **II. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE REPORTS**

The Audit and Compliance Committee has issued a report for each related party transaction in which it has concluded that the transactions entered into are fair and reasonable from the point of view of Endesa and the shareholders apart from the related party.

In addition, for all related transactions there is at least one independent expert's report that has concluded that the transactions between Enel and Endesa are fair and reasonable from the point of view of Endesa and non-related party shareholders.

## **III. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved all transactions.

The logo for Endesa, featuring the word "endesa" in a lowercase, sans-serif font. The letters are blue with a white outline, and the 'e' and 's' have a grey shadow effect.A larger version of the Endesa logo, identical in style to the one above, with the word "endesa" in blue with white outlines and grey shadows.

**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE ON THE FAIRNESS AND REASONABLENESS OF THE RELATED PARTY TRANSACTIONS CONSISTING OF THE AGREEMENT BETWEEN ENEL GREEN POWER S.P.A AND ENEL GLOBAL THERMAL GENERATION S.R.L. FOR THE PROVISION OF ENGINEERING SERVICES IN THE DEVELOPMENT OF ENDESA'S THERMAL AND RENEWABLE ENERGY GENERATION PROJECTS**

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**I. INTRODUCTION AND REGULATORY FRAMEWORK**

In accordance with the provisions of section 3 of article 529 duovicies of the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, Endesa's Audit and Compliance Committee issues this Report to assess whether the transaction is fair and reasonable from the point of view of the company and, where appropriate, shareholders other than the related party, and to give an account of the assumptions on which the assessment is based and the methods used.

In accordance with paragraph 3 of Article 529 unvicies, the Report issued and, where appropriate, published by Endesa's Audit and Compliance Committee, must at least include the following information:

- a) Information on the nature of the transaction and the relationship with the related party,
- b) The identity of the related party,
- c) The date and the value or amount of the consideration for the transaction,
- d) Any other information required to assess whether this is fair and reasonable from the point of view of the company and of shareholders who are not related parties

On 21 December 2021, Endesa's Board of Directors approved a new Regulation on related-party transactions, after repealing the Regulation in force. In addition, on 21 December 2021 Endesa's Audit and Compliance Committee approved a new operational procedure for related-party transactions that develops the guidelines contained in the Regulation, defining the operations, functions and responsibilities of the general regime established for the application, approval, publication and supervision of related-party transactions. The regulation has been applied in this case.

**II. TRANSACTIONS ANALYSED:**

This report analyses the reasonableness and fairness of the Endesa Group's procurement from the Enel Group of technical resources associated with the engineering service for the following transactions:

- a. Provision of engineering services by Enel Green Power SpA (EGP SpA) to Green Power España S.L (EGPE) in connection with the construction of solar and wind farms with a total capacity of 1,902 MW and 439 MW respectively.
- b. Provision of engineering services by Enel Green Power SpA (EGP SpA) to Green Power España S.L (EGPE) in connection with the optimisation process of a hydropower plant.
- c. Engineering services provided by Enel Global Thermal Generation (EGTG) to Endesa Generación, Gas y Electricidad Generación (GESA) and Unión Eléctrica de Canarias Generación (UNELCO) in connection with technical and construction support for: (i)



the dismantling of thermal power plants, (ii) the decommissioning of thermal power plants, (iii) the replacement of diesel engines and auxiliary units of thermal power plants, and (iv) the modification of plants through the conversion of existing generators.

**a) Background for the transaction:**

The primary objective of the Endesa Group's 2022-2024 Strategic Plan is to accelerate the energy transition by promoting the growth of renewable energies. The strategic plan envisages a 48% increase in production from renewable sources to 12,300 MW. By the end of 2024, 92% of production on the peninsula is to be free of CO2 emissions. In this context, Enel Green Power España has identified the need to carry out the following projects in the period 2023-2024, among others: (i) the construction of 33 new solar farms with a total capacity of 1,902 MW and 4 new wind farms with a total capacity of 439MW; and (ii) the optimisation of the equipment of a hydroelectric plant.

In addition, in the area of thermal generation, the Endesa Group has identified a number of thermal power plants where preliminary work and analysis is required for the: (i) decommissioning, (ii) dismantling, (iii) replacement and (iv) retrofitting, in accordance with the following:

- LOT 1. Support for the design and construction of the relevant activities for the dismantling of the thermal power plants of the Alcudia; Ibiza; Jinámar and Candelaria groups;
- LOT 2. Support for the design and construction of the relevant activities for the closure of the thermal power plants of Litoral and Puentes and the old landfill of Alcudia;
- LOT 3. Technical and construction support for the replacement of diesel engines and auxiliary equipment for the conversion to gas in the thermal power plants of Candelaria, Jinamar, Los Guinchos, Las Salinas, Punta Grande and El Palmar and in the thermal power plant of Melilla;
- LOT 4. Support for the feasibility study to investigate the possibility of modifying the installations of the Litoral, Alcudia and As Pontes power plants by converting the existing generators.

The term of the contract will run from the date it is signed until its scheduled termination date of 31 December 2027.

**b) Transaction amount**

The total amount for the provision of engineering services for the optimisation project of a hydropower plant provided by EGP to EGPE is €734,916.

The amount for engineering services to be provided by EGP to EGPE for the new solar and wind farms is €20,042,786.

The total amount for the provision of engineering services by Enel Global Thermal Generation (EGTG) to Endesa Generación, Gas y Electricidad Generación (GESA) and Unión Eléctrica de Canarias Generación (UNELCO) is €1,949,023.

In all cases, it is a maximum price calculated on the basis of the estimated hours multiplied by the hourly rates and any other external costs incurred. A 7.1% margin is included for the direct and indirect costs; under no circumstances will the margin be levied on the contractor's external costs.



In addition to the above, in those cases in which the actual engineering service provision costs are lower than those initially estimated in the contract, the service provider will only charge for the costs which it has actually incurred.

### **III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA**

As party of the first part, **Enel Green Power España, S.L.U, Gas y Electricidad Generación, S.A.U.**, and **Unión Eléctrica de Canarias Generación, S.A.U.** are wholly-owned subsidiaries of Endesa Generación, S.A. (all three jointly, "the Client"), which in turn is wholly owned by Endesa, S.A., so that they are all subsidiaries of Endesa S.A. and form part of the Endesa Group.

As party of the second part, **Enel Global Thermal Generation, S.r.l** and **Enel Green Power SpA** (hereinafter "the Service Provider" or "EGTG") are companies wholly owned by Enel S.p.A. and, therefore, dependent on it and belonging to the Enel Group.

The Enel Group is a leading multinational group in the global electricity and gas markets and its main operations are in Europe and Latin America. Enel Green Power SpA, a member company of Enel Group, is the renewable generation division (hydroelectric, wind, solar and geothermal energy) and is present on five continents. Enel Global Thermal Generation, S.r.l. is the company within the Enel Group dedicated to innovation and integration of the best technical practices related to thermal generation.

Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>1</sup>).

### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN RELATED PARTIES**

#### **1. Operational, technical and/or commercial rationality**

The new investments in renewable generation (solar and wind) and the improvement of the efficiency of a hydroelectric plant are fully in line with Endesa's Strategic Plan. The projects have been analysed and approved by Endesa's General Management. In this respect, the investments are aligned with the Group's strategy and the following have been approved: (i) the technical details of the works to be executed; (ii) the necessary CAPEX; (iii) the business plan (revenues, expenses, IRR, NPV, payback, etc.); (iv) the execution schedule; and (v) the sensitivities of the key variables in terms of qualitative and quantitative risks (CAPEX and risky execution period) and the impact on stakeholders. Based on the above, the investment makes economic, financial and technical sense for Endesa.

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<sup>1</sup> Endesa Group: With regard to the internal regulations associated with related-party transactions, the term "Endesa Group" refers to Endesa, S.A. and its subsidiaries, as described in Article 42 of the Code of Commerce.



Similarly, decommissioning and dismantling of thermal power plants and technological improvements are essential activities that make economic, financial and technical sense for Endesa.

Endesa's engineering department is capable of providing the requested engineering services, but does not have sufficient resources to carry them out. Even though Endesa Ingeniería, a member company of the Endesa Group, offers facility design, engineering and construction services, these are specialised services for electricity transmission and distribution facilities.

Therefore, given Enel's experience in the areas covered by the agreements, it is proposed to entrust Enel's technical resources with the provision of the services covered by the agreements on the basis of the criteria of neutrality, experience and integration.

The advantages of outsourcing the provision of the service to a Group company are summarised below:

- Positioning and strategy. Having a company of the Enel Group provide the engineering services will guarantee that its interests coincide with those of Endesa.
- Operational capacity. The provision of engineering services by an Enel Group company enables optimal use of resources. It also maximises value due to the positive synergies between employees of the same group and allows Endesa to benefit from the know-how acquired by the service provider as an expert in carrying out this type of work with tight schedules and budgets. In particular, the staffing model used by Enel and Endesa maximises availability and thus minimises costs for each of the parties involved.
- Risks. The provision of engineering services by an Enel Group company reduces the risk in the execution of the work while limiting the risks related to data protection and confidentiality of the projects.
- Costs. Having a company of the Enel Group or a third party provide the engineering services when the necessary resources are not available is more cost-effective than hiring employees in the short term. This situation is due to the fact that, although the hourly rates of its own staff would be lower in the long term, the provision of this engineering service by new contracted staff would require a long training process before they would be able to carry out the work, which would mean a higher hourly cost than in the case of the service being provided by an Enel Group company or a third party.
- Swiftness. Having a company of the Enel Group provide the engineering services will allow Endesa to cover the need for the service at the time it arises. Having the service delivered by the company's own staff would require training and the company would not be capable of providing a swift response. Any significant delays due to the lack of experience of the teams could drive up the facility commissioning costs and, therefore, delay the generation of income from the sale of energy at market prices.
- Autonomy. Having a company of the Enel Group provide the engineering services will ensure a high degree of independence in decision-making processes and less dependence on extraordinary situations affecting external suppliers.

## **2. Economic reasonableness of the transaction. Methods used**

First, the OECD Guidelines establish that, in order for an intra-group provision of services to comply with the arm's length principle, it is necessary to determine whether the activities carried out by the provider generate a benefit to the recipient (benefit test), so that an independent third party would have been willing to carry out the activities covered by the services or to engage with another entity for such purposes.

Endesa Generación does not have sufficient resources to carry out all the activities required to develop the engineering projects described under the necessary conditions, in terms of safety, quality, cost and deadlines. Considering that these are one-off projects and that the incorporation of additional internal resources (goods, equipment and technology, as well as human resources) involves a much longer and less efficient process, due to the need to invest in training and adaptation of staff to how Endesa Generación projects are implemented, it is common practice in the industry to request external support for the execution of such projects.

Enel has the appropriate material resources and an Engineering and Construction team with extensive experience in the design, execution and coordination of projects of a nature similar to those that Endesa wishes to implement. Accordingly, it is reasonable to conclude that the company will benefit from the engineering services that it shall request from Enel and, therefore, the remuneration of the same is reasonable and fair.

The increased cost method or Transactional Net Margin Method (TNMM) was chosen for the set of transactions, which takes into account the operating profit obtained by functionally comparable companies. The TNMM takes into account both direct and indirect costs, so the allocation of costs would not imply any change in the result at the operating margin level.

Likewise, the Profit Level Indicator ("PLI") was chosen to check that the profitability obtained by Enel in the provision of engineering services to Endesa is consistent with the market value principle.

With regards to the cost base determined for the transaction, it is concluded that the costs (labour costs, indirect costs of Engineering and Construction, overheads and other indirect costs of the department) included to calculate the price of the related-party transaction being analysed are directly or indirectly related to the provision of the service.

Finally, regarding the rates applied by Enel, these have been compared with the Compass Group's international benchmark, in relation to engineering services provided in different countries, including Spain. Based on this, we can conclude that the hourly rate is within the market range of the rates compared.

It is therefore reasonable to say that the cost base taken into consideration is consistent with the market value principle.

In relation to the cost-sharing criterion, Enel directly assigns the cost of the personnel of its Engineering & Construction area involved in the provision of the service and the travel and accommodation expenses of its personnel, etc. (direct costs) directly to the cost base of the related-party transaction. With regards to the costs that cannot be directly allocated to the provision of services to Endesa (indirect costs), Enel shall allocate them using the hours incurred by its staff as the distribution key. The use of this distribution key is consistent with





the recommendations contained in the OECD Guidelines and Spanish transfer pricing regulations.

Finally, as regards the application of a profit margin, the remuneration for the provision of engineering services consists of the reimbursement of all direct and indirect costs described above plus a profit margin, with the exception of costs incurred by third parties and travel expenses, which are charged without this margin. In this context, an independent expert in the field has carried out a benchmarking study to determine the market margin range of the profitability obtained by independent third parties engaged in the provision of engineering services under comparable conditions to those provided by Enel to Endesa in the Related-Party Transaction under analysis.

Taking into account that the expected profit margin of the transaction being analysed is 7.10%, which is very close to the median of the inter-quartile range determined in the economic analysis, it can be concluded that this margin is consistent with that obtained by independent third parties in comparable circumstances. Therefore, the margin set forth is reasonable.

All in all and taking into account the duties and responsibilities of Enel in the context of the transactions being analysed, it is concluded that both the transfer pricing method established for such purposes and the type of costs and the margin to be allocated are consistent with the arm's length principle.

### **3. Legal and commercial reasonableness of the transaction**

The Contract is formulated for the provision of engineering services, with the best efforts obligation for the service provider. In this type of legal relations for the provision of services, the service provider agrees with a Client on matters related to its competence and professional capacity, responsibility, availability of its professionals, dedication and monitoring of a work plan, as well as transparency of the work actually carried out, costs and invoicing.

Given the nature of the services provided, the usual obligations are established in contracts of this nature, preparing the corresponding work documents and making them available to the Client, while also addressing the orderly transition of the services provided to the Client or to a new supplier in case of termination of the contract.

Likewise, reciprocal obligations are established with regards to confidentiality, force majeure, non-assignment of the Contract and liability, in terms that can be considered the most common terms and conditions in the market for this type of contract.

With regards to the resolution of conflicts, these are also regulated under the usual terms, the Spanish laws and Spanish courts, in view of the place in which the services are provided.

With regards to the execution of the services, their validity and, therefore, termination are subject to the terms of a detailed operational instruction applicable to this type of services, which contains the usual process of acceptance and completion of engineering services.

In conclusion, the Transaction is articulated in a reasonable manner and under contractual terms that could have been agreed by independent parties and, after having been agreed by related parties, do not create unjustified or disproportionate benefits for Enel to the detriment of Endesa's subsidiary.

## **V. INDEPENDENT EXPERT REPORTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

The analysis of the transaction by the Audit and Compliance Committee took the following reports into account:

- The Report prepared by PricewaterhouseCoopers Tax and Legal S.L. and PricewaterhouseCoopers Asesores de Negocios, S.L. (hereinafter "PwC") on the fairness and reasonableness of the provision of engineering services by the Enel Group. PwC issued the Report in its capacity as an independent expert. On the date the report was issued, PwC did not maintain any sort of commercial relations with the Enel Group or with the Endesa Group that could compromise its condition as an independent expert for the purposes of issuing this Report or that, in particular, could place them in a situation of conflict of interest to conduct the analysis and draw up the conclusions set out therein.

According to the Report issued for Endesa's Audit and Compliance Committee, it can be concluded that the engineering services provided by Enel Group companies with the characteristics of Enel Green Power SpA, and Enel Global Thermal Generation, S.r.l. can allow the optimisation of available resources, maximising value as a result of the positive synergies created between employees of the same group, taking advantage of the know-how acquired by the service provider as an expert in this type of work with tight schedules and budgets, and in line with the interests of both parties (operational and strategic rationality of the related-party operation). In addition, the pricing strategy, the cost base and the distribution criterion determined in the contract and the cost-effectiveness margin are consistent with the arm's length principle (economic reasonableness of the related-party transaction). And, finally, the legal and commercial terms are articulated in a reasonable manner and in contractual terms that could have been agreed with independent parties.

It is therefore concluded that the procurement transactions which are the subject of the related-party transaction are fair and reasonable from the point of view of Endesa and, in particular, from the point of view of the shareholders other than the related party, i.e. shareholders other than the Enel Group.

## **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE**

First, it must be stated that the Audit and Compliance Committee is made up of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Committee also includes a Proprietary Director representing the controlling shareholder Enel, which owns 70.10% of Endesa's shareholding. In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The other members of the Audit and Compliance Committee have participated and reached a consensus on the contents of this report on the provision of engineering services related to the optimisation process of a hydroelectric power plant and the provision of engineering services related to the construction process of solar and wind farms between Enel Green Power España, S. L. U. and Enel Green Power SpA, as well as for the provision of engineering services for the decommissioning and dismantling of several power plants and for certain technical conversions in several thermal power plants, the provision of which is to be requested by Endesa Generación, GESA and UNELCO from Enel Global Thermal Generation.



Based on the background information detailed above, the Audit and Compliance Committee concludes that:

- The nature of the work is in line with the company's strategic plan.
- The provision of external services is required to undertake the engineering work in the absence of internal resources of Endesa. The provision of services by EGP Spa and Enel Global Thermal Generation is considered appropriate to the interest of Endesa, in terms of neutrality, experience, integration, operational capacity, costs, speed and autonomy.
- In relation to economic reasonableness, the cost base and the distribution criterion are reasonable and reasonably comply with the OECD Guidelines and with the Spanish regulations for such purposes.
- The pricing method established through the TNMM with PLI as the MTC for the transaction analysed in this document is consistent with the market value principle and complies with the OECD Guidelines.
- According to the results of the analysis conducted by an independent expert, it can be concluded that the cost margin obtained by EGP SpA and Enel Global Thermal Generation in the transaction being analysed is consistent with the market range determined from the sample of independent comparable entities.
- According to international studies, the hourly cost established for the provision of services by Enel is considered reasonable and is provided under the usual market terms and conditions.
- The transaction's legal and commercial terms are articulated in a reasonable manner and in contractual terms that could have been agreed by independent parties.

The Audit and Compliance Committee concludes that the provision of engineering services for the development of the aforementioned projects is fair and reasonable from the point of view of Endesa and its shareholders other than the related party.

## **VII. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transactions.

The Endesa logo is displayed in a light blue, lowercase, sans-serif font. The letters are thin and have a slight shadow effect, giving it a modern and clean appearance.A larger version of the Endesa logo, rendered in a vibrant blue color. The font is the same lowercase, sans-serif style as the smaller logo above, but with a more pronounced shadow and a slight gradient effect.

**AUDIT AND COMPLIANCE COMMITTEE REPORT ON THE FAIRNESS AND REASONABLENESS OF THE LICENCE AGREEMENT FOR THE USE OF THE GRID BLUE SKY PLATFORM, BETWEEN ENDESA DISTRIBUCIÓN REDES DIGITALES S.L. (EDRD) AND ENEL GLOBAL INFRASTRUCTURE AND NETWORKS S.R.L**

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**I. INTRODUCTION AND REGULATORY CONTEXT**

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**II. BRIEF DESCRIPTION OF THE TRANSACTION**

**a) Background for the operation:**

A significant feature of electricity distribution in Spain is that it is a regulated and asset-intensive activity. The main functions that distributors have typically developed include the following: (i) building, maintaining and operating installations, (ii) meeting new demands for electricity supply, (iii) ensuring supply and maintaining quality of service and (iv) addressing access and connection requests.

Endesa Distribución Redes Digitales, S.L. (EDRD) is the largest subsidiary of Endesa, S.A. in the Infrastructure and Networks business. EDRD distributes electricity through more than 315,381 km of grid to approximately 12.4 million customers.

The electricity sector is undergoing profound transformation involving the modernisation and digitalisation of the grid. EDRD feels it is necessary to address technological change that



enables taking advantage of exponential technologies (artificial intelligence, augmented reality, big data, etc.), and the application of platform models, which when coordinated with operational and organisational change, enables the necessary flexibility to be obtained as well as operational efficiencies resulting from the redesign of processes and a new organisational model.

In this context, within the Enel Group, the Grid Blue Sky project emerged as part of a strategic plan for digital transformation consisting of the development and implementation of a technological platform that serves as support for the operation and processes relating to the electricity distribution activity worldwide. This platform is not restricted to a change of technological systems, but involves integral transformation in the monitoring and operation of the business, with the aim of meeting the challenges presented by energy transition, increasing economic performance and improving the quality of customer service, giving rise to a new operating model based on the following transformations:

- Development of technological solutions that enable redesigning and optimising the business processes for the distribution activity, taking advantage of new existing disruptive technologies and platformisation.
- Implementation of a digitalisation model based on platformisation.
- Combining the development of systems and digitalisation with an organisational transformation and operational simplification to take advantage of platform efficiencies and to optimise plans and projects, develop new business opportunities and focus on the customer by means of the integral management of their needs.
- Adapting people's profiles to this new model, and executing the change management programmes necessary for the transformation.

To conclude, the Grid Blue Sky Project takes advantage of new digital technologies to develop a new operational framework that enables meeting the challenges presented by energy transition with the greatest possible guarantee with a view to increasing the economic performance of the business.

#### **b) Purpose of the transaction**

The purpose of the transaction is for Enel Global Infrastructure and Networks S.r.l (EGIN) to grant Endesa Distribución a Licence to use the Blue Sky Grid Platform. Under the Contract, Endesa Distribución acquires the rights to access the Platform by means of authentication credentials and is granted the right to use and exploit the licensed Platform, for its own benefit as part of its business activity, as well as to be able to access the Platform at all times and with full right to exploit it and use the Solutions provided on the Platform for business purposes.

Endesa Distribución should also have the right to receive both generic updates and improvements that EGIN makes to the Platform and its Solutions and to request specific developments or updates to enable Endesa's distribution business to adjust to regulatory requirements. With regard to new solutions developed by EGIN and improvements that are agreed between the parties, the terms under which they will be made available to Endesa will be subject to negotiation.

Under the Agreement, EGIN (i) will provide all development services relating to the search for advanced and innovative architectures, devices and technologies with regard to the Platform and Solutions; (ii) will provide the Solutions that the Platform should contain, as well as any necessary improvements to guarantee the functionality of the platform; (iii) will support applications and undertake corrective maintenance (where necessary) of the Developed Solutions; and (iv) will undertake infrastructure activities with regard to computing and the physical and virtual storage necessary to ensure that the Solutions provide suitable availability and service level.

Endesa Distribución will use its own staff to identify any national requirements for the adaptation of the Solutions to its business and will support the implementation of the Solutions in Endesa Distribución's business. Endesa Distribución will not undertake any development,



improvement, maintenance or protection of the Platform, these functions will be undertaken entirely by EGIN.

➤ The **main terms and conditions** for the User Licence Agreement are as follows:

Duration and reasons for termination:

The contract starts on 10 May 2022 and will end on 31 December 2030. The contract provides for renewal of the term at the request of EDRD who should give 24 months' notice, during which time the conditions for extension should be established by mutual agreement. Notwithstanding the above, after three years, at the request of either Party, an assessment will be made of compliance with the contract and the performance of the products and, if the result of the review verifies a substantial breach of the agreed conditions, EDRD may propose a modification of the contractual conditions and, if this is not accepted by EGIN, EDRD may terminate the contract.

Termination of the contract is envisaged in the event that either party leaves the perimeter of the Enel Group. In this case, EGIN should ensure that the licence will be maintained for a period not exceeding 24 months and should cooperate to ensure orderly transition. This commitment will also be required of EGIN by EDRD if the contract is terminated under any other circumstances. The contract may also be terminated early by mutual agreement of the parties or in the event of a serious breach of contractual obligations.

EGIN guarantees that it is the exclusive owner of the Platform and that the Platform and the Solutions are free of defects and serve the purpose proposed, and accepts to compensate for direct damages to EDRD that may be caused by a malfunction of the product and attributable to negligence by the Licensor. The contract also provides for the application of penalties by the licensor, in accordance with the usual terms and conditions for this type of contract.

The Licensor is the exclusive owner of the Platform and the Intellectual Property rights over the Solutions and their developments, modifications and improvements. EDRD will be able to access the Platform using credentials provided by EGIN. There are restrictions to EDRD with regard to the modification, reproduction and manipulation of the Platform's source code and sublicensing and assignment to third parties is prohibited (unless this is in favour of companies of the Enel group). EGIN will not hold EDRD responsible for complaints made by third parties arising from a violation of Intellectual Property rights for the products covered by the licence.

**c) Transaction amount**

The amount for contracting by Endesa Distribución Redes Digitales S.L. (EDRD) from Enel Global Infrastructure and Networks S.r.l (EGIN) for the granting of a Licence to use the Grid Blue Sky Platform, for the period from 10 May 2022 to 31 December 2030, amounts to a total of €144.4 Million.

**III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA:**

**Company providing the services:** Enel Global Infrastructure and Networks S.r.l (EGIN).

**Company receiving the services:** Endesa Distribución Redes Digitales S.L.



Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>2</sup>).

Enel and its subsidiaries (excluding the Endesa Group) and Endesa and its subsidiaries are considered "the same counterparty" when calculating the thresholds to publish related-party transactions. In other words, the same counterparty is considered both the related person, whether natural or legal, as well as any other entity under its control, and, in the case of natural persons, close relatives, as defined in IAS 24.

#### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN THE RELATED PARTIES**

##### **a) Strategic rationality for the transaction.**

In order to meet the challenges facing the electricity distribution business, the Enel Group launched the Grid Blue Sky project as a transformational project based on platformisation, with the aim of applying the benefits of new digital technologies to electricity distribution processes, to enable operational improvements and organisational efficiencies. In this regard, the qualitative advantages of the project include the following:

- Improved technical and economic control of the work, with increased digitalisation of field teams;
- Reduction in the time to update the cartographic and alphanumeric representation of network installations;
- Simplification of the certification process for work with a reduction of travel required for verification;
- Reduction of waiting times and unavailability of the network by means of digital communications that will improve the quality of supply;
- Improved resource allocation as a result of integrated asset lifecycle management: Design, construction and maintenance
- Reduction of the level of stocks in the warehouse as a result of digitalised tracking for the location of materials;
- Increased profitability for resources by using advanced support tools;
- Reduction of response times for customer requests, as a result of the use of Artificial Intelligence;
- Increased level of productivity for fraud inspections by means of the ongoing development of Artificial Intelligence.

When the needs on which the Grid Blue Sky project is based were defined, there was no integral commercial solution on the market that would provide coverage for all the objectives pursued by the project in its definition, so it had to be designed and developed from scratch



internally. Deloitte has confirmed the unique nature of the platform which is the basis of the project, and there are currently no technological developments that are fully comparable with a similar platform model.

The fact that the service has been implemented by a company of the Enel Group guarantees that its interests are aligned with those of Endesa Distribución and, ultimately, of the entire Endesa Group. In this regard, Endesa Distribución's own staff participated at the design stage for the platform and identified the needs and functionalities that it needed to cover. In this regard, the platform meets Endesa's needs and challenges. It should also be mentioned that the fact that it was created by a company of the Enel Group and not by a third party guarantees that it is in line with the company's purposes, values and strategic plan. It is also important to point out that this is a strategic project for the company with a high level of innovation compared to traditional solutions. This means that it is a highly confidential product, which would not be the case if it had been developed by a third party external to the Enel Group.

#### **b) Economic Reasoning. Methods used**

The analysis of the arm's length price for a Related-Party Transaction was undertaken following the scheme summarised below:

1. The economic reasonableness of the operation as a whole was examined.  
To establish the arm's length remuneration of a transaction made between related parties, it should be determined in advance whether there is a sufficient commercial justification for the very existence of the transaction, in other words, it should be assessed whether in the case of two independent entities there would be any rational economic motivation for undertaking the transaction and to establish the remuneration for it (paragraph 1.123 of OECD Guidelines).

The operation as a whole makes complete economic sense for Endesa.

2. The benefit obtained by Endesa Distribución from a licence to use this platform was examined.

The platform will provide Endesa Distribución with both quantitative and qualitative benefits.

With regard to quantitative benefits, the business plan establishes (i) an improvement in revenue, related to the optimisation of the development of network assets, resulting from bringing forward the implementation of current investments, as well the improved allocation/prioritisation of CAPEX and OPEX resources, programming needs, and a more efficient execution that enables the benefits obtained for the allocated resources to be maximised, furthermore, There is also a reduction in the current level of material stocks as a result of better visibility and programming of requirements; (ii) cost reduction, as a result of the automation, digitalisation and simplification of activities that reduce the need for in-house and external resources. In total the revenue improvement and cost reduction will represent an amount of 106 million euros in the period 2022 to 2030.

The qualitative benefits were detailed above.

3. There has been a review of the transfer pricing methodology defined for the remuneration of the Related-Party Transaction.

The transfer pricing method selected for the review of compliance with the market value principle for the Related-Party Transaction is the Transactional Net Margin Method ("TNMM"), considering as the Profit Level Indicator (or PLI) the margin on budgeted costs applied by EGIN in consideration for the assignment of the right to use the software.

EDRD will pay EGIN €144.4 Million for a licence to use the Grid Blue Sky Platform which is established as the sum of 2 concepts: A base price and a profit of 10.7%

Analysis of the cost base for the Related-Party Transaction: The calculation of the Base Price is determined in accordance with the transfer pricing policy applied between EGIN and its related entities (including EDRD), which consists of invoicing the assignee entities a proportion of the estimated EGIN costs for the development and maintenance of the asset.

Cost assignment method used: EGIN's cost-sharing scheme to Enel Group companies is proportional to the expected profits for each of the Enel Group companies. This involves the Enel Group calculating the expected savings for each Company with a common methodology, which in the part corresponding to EDRD were validated by EDRD itself. The sharing percentage applied to Endesa is lower than it would be if other distribution criteria were applied, such as the number of customers or EBITDA.

**V. REPORTS BY INDEPENDENT EXPERTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

The analysis of the transaction by the Audit and Compliance Committee took the following reports into account:

- A Report by PricewaterhouseCoopers Tax and Legal S.L. and PricewaterhouseCoopers Asesores de Negocios, S.L. (hereinafter "PwC") on the fairness and reasonableness of the contract with Endesa Distribución Redes Digitales S.L. for a licence to use the Grid Blue Sky platform. (EDRD) and Enel Global Infrastructure and Networks S.r.l

PwC issued the Report in its capacity as an independent expert. On the date the report was issued, PwC did not maintain any sort of commercial relations with the Enel Group or with the Endesa Group that could compromise its condition as an independent expert for the purposes of issuing this Report or that, in particular, could place them in a situation of conflict of interest to conduct the analysis and draw up the conclusions set out therein.

In the Report issued for Endesa's Audit and Compliance Committee, the following may be concluded:

- From a strategic and operational point of view  
*"It is reasonable for the implementation of the Platform to be undertaken through an Enel Group company using a digitalisation model based on platformisation"*
- From an economic point of view  
*"It may be concluded that the transfer pricing methodology defined for the Related-Party Transaction is reasonably consistent with the market value principle".*
- From the legal and commercial point of view in which it is expected to formalise the Related-Party Transaction:  
*"In view of the legal and commercial terms and conditions expected to be applicable in the formalisation of the Related-Party Transaction by means of a Contract, it can be concluded that the related-party transaction is articulated reasonably and under contractual terms that could have been agreed by independent parties and that, if these were to be agreed between related parties, they would not create unjustified or disproportionate benefits for EGIN to the detriment of Endesa's subsidiary, EDRD and, ultimately to Endesa"*
- And finish by stating the following: *"it can be concluded that this transaction is fair and reasonable from the point of view of Endesa and, in particular, of shareholders other than the related party, that is, other shareholders in the Enel Group". "*

- Report by Deloitte Financial Advisory, S.L.U. (Deloitte) on the fairness and reasonableness of the contract for a licence to use the Grid Blue Sky platform between Endesa Distribución Redes Digitales S.L. (EDRD) and Enel Global Infrastructure and Networks S.r.l.

Deloitte issued the Report in its capacity as an independent expert. On the date the report was issued, Deloitte did not maintain any sort of commercial relations with the Enel Group or with the Endesa Group that could compromise its condition as an independent expert for the purposes of issuing this Report or that, in particular, could place them in a situation of conflict of interest to conduct the analysis and draw up the conclusions set out therein.

In the Report issued for Endesa's Audit and Compliance Committee, the following may be concluded: *"From an economic perspective and, in the absence of a better alternative, the operation is fair and reasonable from the point of view of the Company, and where appropriate, of shareholders other than the related party"*, based on the following:

- *The profitability or rate of return for the Proposal considering (i) the estimated investment for the Grid Blue Sky project, (ii) the increase in the result associated with the optimal incorporation of new network assets (iii) the reduction of inventory and (iv) the net savings derived from the implementation of the project. The approval of the Proposal would therefore have a favourable impact on the Company.*
- *A contrasting analysis on whether the level of investment proposed for the Project (€144.4 Million) to be undertaken by EDRD with regard to the Grid Blue Sky platform is within the range that a market participant or EDRD itself could pay for a licence of similar characteristics and functionalities.*
- *If EDRD were to independently implement a series of solutions and functionalities similar to those that will be derived from the project, and in accordance with the contrast analysis undertaken, the Company would incur a cost not lower than that established in the contract for the licence, in part because they would not be able to capture the synergies derived from using a global platform as in the case of the Grid Blue Sky project.*

## **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE:**

Firstly, it should be stated that the Audit and Compliance Committee consists of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Audit and Compliance Committee also includes a Proprietary Director representing the controlling shareholder Enel, which owns 70.10% of Endesa's shareholding.

In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The remaining members of the Audit and Compliance Committee participated and agreed on the content of this Report on the contract for a licence to use the Grid Blue Sky platform, between Endesa Distribución Redes Digitales S.L. (EDRD) and Enel Global Infrastructure and Networks S.r.l.



Based on the background information detailed above, the Audit and Compliance Committee concludes that:

- The contract for a licence to use of the Grid Blue Sky platform will facilitate operational and process changes, backed up and supported by state-of-the-art technological tools, which will enable the new requirements of the energy context to be met, efficiencies to be captured and an organisational change to be implemented that enables operations to be improved.
- The nature of the Related-Party Transaction is in line with the purpose, values and strategic plan of Endesa Distribución and the Endesa Group (including digitalisation through platformisation and the improvement of operational KPIs for the distribution business).
- The legal and commercial terms and conditions under which the Related-Party Transaction is expected to be formalised have been reasonably articulated and the contractual terms and conditions could have been agreed by independent parties.
- There is currently no comprehensive commercial solution available on the market that is fully comparable with Grid Blue Sky.
- The fact that the service has been implemented by a company of the Enel Group guarantees that its interests are aligned with those of Endesa Distribución and, ultimately, of the entire Endesa Group. It is also important to point out that this is a strategic project for the company with a high level of innovation compared to traditional solutions. This means that it is a highly confidential product, which would not be the case if it had been developed by a third party external to the Enel Group.
- The transaction as a whole makes economic sense for all the related parties and specifically it is "fair and reasonable" for Endesa Distribución, and, therefore, for Endesa and its unrelated shareholders as detailed in this report.
- The platform will provide Endesa Distribución with both quantitative and qualitative benefits.

To conclude and taking into account the considerations expressed in the reports by the independent experts, the Audit and Compliance Committee considers that the contract for a licence to use of the Grid Blue Sky platform, between Endesa Distribución Redes Digitales S.L. (EDRD) and Enel Global Infrastructure and Networks S.r.l., is fair and reasonable from the point of view of Endesa and shareholders other than the related party.

#### **IV. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transaction.

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**AUDIT AND COMPLIANCE COMMITTEE REPORT ON THE FAIRNESS AND REASONABLENESS OF THE RELATED-PARTY TRANSACTION CONSISTING OF THE RATIFICATION OF THE SALE OF LNG TO GNL CHILE, S.A. BY ENDESA ENERGÍA, S.A.U.**

## **AUDIT AND COMPLIANCE COMMITTEE REPORT ON THE FAIRNESS AND REASONABLENESS OF THE RELATED-PARTY TRANSACTION CONSISTING OF THE RATIFICATION OF THE SALE OF LNG TO GNL CHILE, S.A. BY ENDESA ENERGÍA, S.A.U.**

### **I. INTRODUCTION AND REGULATORY FRAMEWORK**

In accordance with the provisions of section 3 of article 529 duovicies of the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, Endesa's Audit and Compliance Committee issues this Report to assess whether the transaction is fair and reasonable from the point of view of the company and, where appropriate, shareholders other than the related party, and to give an account of the assumptions on which the assessment is based and the methods used.

In accordance with paragraph 3 of Article 529 unvicies, the Report issued and, where appropriate, published by Endesa's Audit and Compliance Committee, must at least include the following information:

- a) Information on the nature of the transaction and the relationship with the related party,
- b) The identity of the related party,
- c) The date and the value or amount of the consideration for the transaction,
- d) Any other information required to assess whether this is fair and reasonable from the point of view of the company and of shareholders who are not related parties

On 21 December 2021, the Endesa Board of Directors approved a new Regulation on related-party transactions, after repealing the Regulation in force. In addition, on 21 December 2021 Endesa's Audit and Compliance Committee approved a new operational procedure for related-party transactions that develops the guidelines contained in the Regulation, defining the operations, functions and responsibilities of the general regime established for the application, approval, publication and supervision of related-party transactions. The regulation has been applied in this case.

### **II. BRIEF DESCRIPTION OF THE GENERAL TRANSACTION**

#### **a) Purpose of the transaction.**

The purpose of the transaction is to ratify the sale of an LNG carrier in June 2021 (1 TWh), by Endesa Energía S.A. to GNL Chile S.A., for the amount of €27 million. The Chilean market has limited flexibility in electricity interconnections and gas interconnections or storage, making it a destination far removed from traditional LNG markets.

Considering the above, GNL Chile, S.A. regularly purchases LNG from Enel Global Trading, S.p.A. because it offers wider market access and does so in a shorter period than the Chilean entity.

In May 2021, GNL Chile, S.A. was interested in buying the LNG carrier DES Quintero from an independent third party. Enel Global Trading, S.p.A., agreed with Endesa Energía, S.A. to broker the transaction as Endesa Energía had a framework contract with the third party. Endesa Energía, S.A. and GNL Chile, S.A. formalised the sale to GNL Chile, S.A. of the LNG vessel acquired from the independent third party. The offtaker (end user) of this LNG sale is the entity Enel Generación Chile, S.A.

#### **b) Transaction amount**

The payment established for this transaction is \$9.15/MMBtu, which is the value of the carrier at market price, that is, the price purchased from the independent supplier (\$9.00/MMBtu), plus a brokerage commission of \$0.15/MMBtu obtained by Endesa Energía, S.A. for buying on the market for the benefit of GNL Chile, S.A.

The value of the sale of the LNG carrier by Endesa Energía, S.A. to GNL Chile, S.A. in June 2021 was Euro 27 million.

Through this Related-Party Transaction, Endesa Energía, S.A. acted as intermediary between the independent supplier and GNL Chile, S.A., making a profit margin of Euro 390,000 without incurring any additional risk.

### **III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA**

**Endesa Energía, S.A.** is fully-owned by Endesa, S.A. and, is therefore a subsidiary of it belonging to the Endesa Group ("Endesa Energía").

The company **GNL Chile, S.A.** (GNL Chile) is 33% owned by Enel Generación Chile S.A., which in turn is 59.96% owned by Enel S.p.A.2 Therefore, GNL Chile, S.A. is not a subsidiary of Enel, S.p.A. nor does it belong to the Enel Group. Nevertheless, to the extent that the end user of the gas is Enel Generación Chile S.A., it being a subsidiary of Enel, S.p.A., the Endesa Audit and Compliance Committee, at its meeting on 21 February 2022 agreed on the need for the transaction to be ratified by the Endesa Board of Directors, considering it a related-party transaction.

Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>3</sup>).

### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN RELATED PARTIES**

#### **1. Operational and strategic rationality of the transaction**

Endesa Energía holds a Framework Contract with the independent supplier and therefore, given the need of GNL Chile to acquire gas, it asked Endesa Energía to buy 1 TWh of LNG at a price of \$9.00/MMBtu and, subsequently, resell it to GNL Chile under the same technical conditions at a price of \$9.15/MMBtu.

The Framework Agreement does not limit the number of transactions between parties, so the purchase by Endesa Energía has no opportunity cost as it does not imply a loss of purchasing power in the future due to Endesa Energía's own needs. Therefore, this transaction poses no great risk to Endesa, as it obtains a margin of \$0.15/MMBtu (approximately Euro 390,000) by acting as broker between the parties and formalising the sale of LNG to GNL Chile under the same terms (except the sale price) as those formalised in the acquisition of LNG from the supplier.

An assessment is detailed below of the impact of the purchase of an LNG carrier for GNL Chile on operations and the organisation:

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<sup>3</sup> Endesa Group: With regard to the internal regulations associated with related-party transactions, the term "Endesa Group" refers to Endesa, S.A. and its subsidiaries, as described in Article 42 of the Code of Commerce.

- **Positioning and strategy.** The Related-Party Transaction has no relevant impact on the Endesa Energía or Endesa Group strategy, though it does involve a business opportunity that does not entail any risk or loss of opportunity.
- **Operational capacity.** The purchase transaction by Endesa Energía from the supplier does not limit its purchasing capacity in the future at any time, so the opportunity cost is zero.
- **Risks.** Carrying out an LNG purchase and sale transaction between the supplier and GNL Chile with the same terms (except the profit margin), limits risk while allowing for obtaining a fee of \$0.15 /MMBtu (approximately Euro 390,000). In this regard, the only quantifiable risk could lie in an excessive drop in the price of gas on the international markets between the time of purchase and sale to GNL Chile, which is mitigated by the proximity of the dates of the back-to-back transaction.
- **Costs.** Endesa Energía passes on all the costs of supplying LNG to GNL Chile plus a profit margin.

## **2. Economic reasonableness of the transaction. Methods used**

To analyse compliance with the principle of free competition, according to paragraph 2.14 of the OECD Guidelines and article 18.4 of the CTR, the Comparable Uncontrolled Price method (CUP) is the most reliable transfer pricing method for determining the nature of the market value associated with the corresponding related-party transaction.

Given that no trading services provided by Endesa Energía and GNL Chile to independent third parties comparable to the transaction under analysis were identified, publicly available information was used with the aim of identifying comparable contracts between independent entities. As a result of the search, 14 comparable contracts between independent entities were obtained with 30 observations showing a commission rank.

Taking into account that the commission is within the range of values derived from the economic analysis carried out and that the risk incurred by Endesa Energía in this transaction is minimal, it complies with the arm's length principle.

In view of the foregoing, it can be concluded that the methodology used to determine the price of the related-party transaction conducted between Endesa Energía and GNL Chile is in accordance with Spanish tax regulations on transfer pricing and the OECD guidelines, and that the prices of these transactions reflect what independent parties would have agreed in similar circumstances.

In view of these legal and commercial terms, it can be concluded that the related-party transaction is articulated reasonably and in contractual terms agreed by independent parties and, therefore, does not give rise to unjustified or disproportionate benefits to GNL Chile to the detriment of the Endesa subsidiary.

## **V. INDEPENDENT EXPERT REPORTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

After analysing the transaction, the Audit and Compliance Committee has taken into account the Report of PricewaterhouseCoopers Tax and Legal S.L. and PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC") on the fairness and reasonableness of the ratification of the sale of LNG to GNL Chile by Endesa Energía.

PwC issued the Report in its capacity as an independent expert. On the date the report was issued, PwC did not have any sort of commercial relationship with the Enel Group or with the Endesa Group that could compromise its capacity as an independent expert for the purposes of issuing this Report or that, in particular, could give rise to a conflict of interest to conduct the analysis and draw up the conclusions set out therein.





The independent expert concludes that the acquisition of the liquefied natural gas carrier is fair and reasonable from the point of view of Endesa and, in particular, its shareholders apart from the related party, i.e. shareholders other than those of the Enel Group.

## **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE**

First, it must be stated that the Audit and Compliance Committee is made up of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Committee also includes a Proprietary Director representing the controlling shareholder Enel, which owns 70.10% of Endesa's shareholding.

In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The rest of the members of the Audit and Compliance Committee participated and agreed on the content of this Report on the sale of LNG between Endesa Energía and GNL Chile.

Based on the background information detailed above, the Audit and Compliance Committee concludes that:

1. It is reasonable for Endesa Energía, as a company that has a Master Agreement with an independent third party, to carry out the transaction selling LNG to GNL Chile, taking into account that it is not detrimental to its future purchasing power. In addition, the transaction does not pose any substantial risk.
2. The fixed commission agreed between Endesa Energía and GNL Chile for the trading services provided is within the range of the economic analysis carried out and as the risk incurred by Endesa Energía in this transaction is minimal, it complies with the arm's length principle.
3. This price determination procedure complies with the Spanish tax regulations on transfer pricing and the OECD Guidelines; the prices of these transactions would reflect what independent parties would have agreed under similar circumstances.
4. In view of these legal and commercial terms, it can be concluded that the related-party transaction is articulated reasonably and in contractual terms agreed by independent parties and, therefore, does not give rise to unjustified or disproportionate benefits to GNL Chile to the detriment of the Endesa subsidiary.

The Audit and Compliance Committee concludes that the sale and purchase of LNG between Endesa Energía and GNL Chile is fair and reasonable from the point of view of Endesa and of the shareholders apart from the related party.

## **VII. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transactions.

The logo for Endesa, featuring the word "endesa" in a lowercase, sans-serif font. The letters are blue with a white outline, and the "e"s have a unique shape with a horizontal bar.A larger version of the Endesa logo, identical in style to the one above, with the word "endesa" in blue with white outlines.

**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE ON THE FAIRNESS AND REASONABLENESS OF THE RELATED-PARTY TRANSACTION CONSISTING OF THE PURCHASE OF LNG FROM ENEL GLOBAL TRADING SPA AND ENDESA ENERGÍA, S.A.U.**

## **REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE ON THE FAIRNESS AND REASONABLENESS OF THE RELATED-PARTY TRANSACTION CONSISTING OF THE PURCHASE OF LNG FROM ENEL GLOBAL TRADING SPA AND ENDESA ENERGÍA, S.A.U.**

### **I. INTRODUCTION AND REGULATORY FRAMEWORK**

In accordance with the provisions of section 3 of article 529 duovicies of the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, Endesa's Audit and Compliance Committee issues this Report to assess whether the transaction is fair and reasonable from the point of view of the company and, where appropriate, shareholders other than the related party, and to give an account of the assumptions on which the assessment is based and the methods used.

In accordance with paragraph 3 of Article 529 unvicies, the Report issued and, where appropriate, published by Endesa's Audit and Compliance Committee, must at least include the following information:

- a) Information on the nature of the transaction and the relationship with the related party,
- b) The identity of the related party,
- c) The date and the value or amount of the consideration for the transaction,
- d) Any other information required to assess whether this is fair and reasonable from the point of view of the company and of shareholders who are not related parties.

On 21 December 2021, Endesa's Board of Directors approved a new Regulation on related-party transactions, after repealing the Regulation in force. In addition, on 21 December 2021 Endesa's Audit and Compliance Committee approved a new operational procedure for related-party transactions that develops the guidelines contained in the Regulation, defining the operations, functions and responsibilities of the general regime established for the application, approval, publication and supervision of related-party transactions. The regulation has been applied in this case.

### **II. OVERVIEW OF THE GENERAL TRANSACTION**

#### **a) Purpose of the transaction**

LNG sales and purchases for a maximum volume of 3 TWh for the year 2022, between Endesa Energía, S.A. and Enel Global Trading SpA. The amount may vary depending on the prices on the TTF market of reference. In any case, the Audit and Compliance Committee will be informed of the final amount of the transactions and, if these exceed the authorised amount by 50%, they will be submitted again to the Board of Directors for their authorisation.

#### **b) Transaction amount**

Regarding the economic value of the Related-Party Transaction, the estimated value of the sale and purchase of three TWh of LNG between Endesa Energía and Enel Global Trading S.p.A would currently amount to €269 million, with the following breakdown:



- Two ships for the remainder of 2022 at the market price of TTF Winter 2022<sup>4</sup>: 2 TWh x €90.35/MWh = €180.7 mn
- An April 2022 ship already closed at the April PEG market price, plus a fee, in total 88.4 million euros.

### **III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA**

As party of the first part, **Endesa Energía, S.A.U.** ("Endesa Energía") is a fully-owned subsidiary of Endesa, S.A., and therefore a subsidiary of the former, and a member company of the Endesa Group.

As party of the second part, **Enel Global Trading S.p.A.** ("EGT") is a fully-owned subsidiary of Enel S.p.A and, therefore, a subsidiary of it and belonging to the Enel Group.

Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>5</sup>).

### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN RELATED PARTIES**

#### **1. Operational and strategic rationality of the transaction**

Given the need for greater flexibility due to the current energy and geopolitical setting, Endesa Energía has deemed it to be appropriate to make intra-group LNG sales and purchases for a maximum volume of 3TWh (of which 1TWh has already been executed), in order to respond to specific incidents as well as to the need, to increase, decrease or modify the available LNG volume in an agile manner, taking advantage of the operational opportunities and benefits resulting from the synergies generated by the execution of joint sales and purchases operations within the Enel Group.

This provides for the possibility of carrying out purchase and sale operations that are in line with Endesa Energía's economic interests, provided that the economic conditions are advantageous, without Endesa Energía or EGT being obliged to exchange the LNG, leaving it up to the parties to decide whether or not to accept the Joint Managing Authority's proposals.

Three TWh/year represent a very small percentage, less than 5%, of the total gas managed by Endesa for 2021 and the forecast for 2022. Consequently, it can be concluded that setting the maximum limit for intra-group LNG contracts at 3 TWh/year does not distort the market or Endesa Energía's business, as this represents a non-significant proportion of all gas transactions carried out by both companies.

Based on the above, it is clear that **the nature of the operations is in line with the company's strategy and Endesa Energía's needs.**

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<sup>4</sup>TTF price at 25-03-22.

<sup>5</sup> Endesa Group: With regard to the internal regulations associated with related-party transactions, the term "Endesa Group" refers to Endesa, S.A. and its subsidiaries, as described in Article 42 of the Code of Commerce.



The following is a detailed assessment of the impact on operations and the organisation of transactions:

- **Positioning and strategy.** The joint management of LNG contracts between Endesa and Enel enhances the strategic positioning, maximising synergies in the operation of assets and minimising the costs and risks associated with the activity. In addition, it allows a response to be given to specific incidents that may alter the amount of LNG available in an agile manner and to complete purchase and sale transactions that respond to the financial interests of Endesa Energía and EGT, provided that the financial conditions are beneficial to both companies.
- **Operational capacity.** Joint action increases the fleet usage efficiency, allowing the optimisation of routes according to the needs of Endesa Energía and Enel (incorporating certain variables, such as the calculation of times, distances and routes and making the relevant adjustments, according to each situation). In addition, it can streamline the response to any need, avoiding the need for constant carrier sub-charter processes. Moreover, the use of opportunities and their geographical scope is expanded, contributing to better risk management.
- **Risks.** The economic risks inherent to the activity are reduced through joint action, contributing to the partial mitigation of such risks. Likewise, the larger number of joint resources allows both companies to deal more easily with events that have occurred and to overcome them with success. In addition, the inclusion of intra-group transactions allows for better management of supply risk by adding the possibility of sourcing outside the market, which is particularly important in the current context of uncertainty and volatility.
- **Costs.** The capacity to perform intra-group LNG transactions between Endesa Energía and Enel means it is not necessary to use the market, saving the associated costs, reducing risks for the counterparty, increasing the security of supply and improving margins. Likewise, it offers savings in port costs derived from economies of scale (tugboats, pilots, moorings, etc.), thus optimising how activities are planned and avoiding the unnecessary transfer of assets. In this context, intra-group transactions enhance these synergies by enabling, under certain conditions, an improvement in operating margin.
- **Autonomy.** A high degree of independence is available in decision-making through joint action, using a centralised management model. In this regard, the model is not only used to manage and coordinate the activities to be carried out centrally, but it allows both companies to take advantage of synergies and become more cost-effective, giving each company a high degree of autonomy, to the extent that they can manage their own carriers.

## **2. Economic reasonableness of the transaction. Methods used**

To analyse compliance with the principle of free competition, according to paragraph 2.14 of the OECD Guidelines and article 18.4 of the CTR, the Comparable Uncontrolled Price method (CUP) is the most adequate transfer pricing method for determining the nature of the market value associated with the corresponding related-party transaction. Taking into account that information is available on the price agreed between independent third parties for comparable transactions, we can conclude that the necessary offers are given for the application of the CUP method to determine the market value of the related-party transaction.

As part of the joint management of the LNG contracts and in application of the ex ante control methodology, Endesa compares the price offered by Enel with the offers of independent third



parties, if available. The price determined is the price provided for in the most favourable offer to Endesa in each case, which is verified ex post on a quarterly basis by an independent expert.

Specifically, for the sale of an LNG carrier by Enel to Endesa Energía on 23 March 2022, the PEG market reference of April DA was used. In addition, the price was previously compared to other comparable offers and it was determined that the purchase of the gas from Enel was the most favourable offer for Endesa Energía's interests according to the established ex ante controls.

Therefore, the methodology used to determine the price for the transactions between Endesa Energía and EGT under the joint management model for LNG contracts was considered to comply with Spanish transfer pricing tax rules and OECD guidelines, and it was also deemed that the prices for these transactions reflected what independent parties would have agreed in similar circumstances.

For the ship already contracted in March 2022 for delivery in April 2022, the price was set at the April PEG market price, plus a fee of €88.4 million. Before the transaction was concluded, the price was compared to other comparable offers and it was determined that the purchase of the gas from Enel was the most favourable offer for Endesa Energía's interests according to the established ex ante controls. The corresponding ex-post controls are also applied to this transaction. In any event, this purchase has resulted in a positive margin for Endesa Energía.

### **3. Legal and commercial reasonableness of the transaction**

Under the joint management for the sale and purchase of LNG, certain additional ex-post control mechanisms are put in place. In this regard, the Agreement provides that the parties will receive detailed information on a quarterly basis on the process of formalising LNG sale and purchase agreements between the parties, so that each party will have four months from receipt of this information to make allegations and request additional information or clarifications. In the case of Endesa Energía, it is stipulated that Endesa Energía will carry out this review process with the assistance of independent third parties. Therefore, the Agreement provides for specific review mechanisms that allow for the resolution of disputes on terms similar to those that would have been agreed by independent parties.

The terms and conditions applicable to the specific LNG sales and purchases made or to be made under the Related-Party Transaction may be deemed to have been agreed by the parties on terms that are customary for international contracts of this type. In particular, the parties have determined a reasonable distribution of the risks associated with the sale and supply of gas, they have established an invoicing, payment and regulation system that can also be considered appropriate according to the nature of the purchase of LNG, as well as mechanisms for the management of cases of force majeure in generally-accepted terms and cases of early cancellation and liability and resolution of conflicts through appropriate international arbitration.

### **V. INDEPENDENT EXPERT REPORTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

After analysing the transaction, the Audit and Compliance Committee has taken into account the Report of PricewaterhouseCoopers Tax and Legal S.L. and PricewaterhouseCoopers Asesores de Negocios, S.L. (hereinafter "PwC") on the fairness and reasonableness of the intra-group LNG purchases from Enel Global Trading SpA. PwC has issued its report in its capacity as independent expert. On the date the report was issued, PwC did not have any sort of commercial relationship with the Enel Group or with the Endesa Group that could compromise its capacity as an independent expert for the purposes of issuing this Report or that, in



particular, could give rise to a conflict of interest to conduct the analysis and draw up the conclusions set out therein.

The independent expert concludes that the intra-group acquisitions of LNG from Enel Global Trading SpA are fair and reasonable from the point of view of Endesa and, in particular, its shareholders apart from the related party, i.e. shareholders other than those of the Enel Group.

## **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE**

First, it must be stated that the Audit and Compliance Committee is made up of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Committee also includes a Proprietary Director representing the controlling shareholder Enel, which owns 70.10% of Endesa's shareholding.

In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The other members of the Audit and Compliance Committee have participated in and reached a consensus on the content of this report on the intra-group acquisition of LNG from Enel Global Trading SpA by Endesa Energía, S.A.

Based on the background information detailed above, the Audit and Compliance Committee concludes that:

1. It is reasonable to conclude that the intra-group transactions between Enel Global Trading and Endesa Energía improve the position and strategy of Endesa, while maximising the operational efficiency of assets and mitigating the costs and risks inherent to the activity, provided that it is carried out according to a series of predefined rules that guarantee that benefits are obtained without penalising the interests or transactions of either of the parties. These transactions are particularly relevant in the context of the current energy and geopolitical crisis, as it offers the possibility of covering supplies without needing to use the market.
2. The price set for intra-group purchases and sales is the price of the most advantageous offer for Endesa Energía at any given time, which is reviewed ex post on a quarterly basis by an independent expert.
3. The methodology used to determine the price for the transactions between Endesa Energía and EGT under the joint management model of LNG contracts can be considered to comply with Spanish tax laws on transfer pricing and OECD guidelines and the prices of these transactions reflect what independent parties would have agreed in similar circumstances.
4. In view of the legal and commercial terms and conditions under which the joint management of LNG contracts has been established, it can be concluded that the related-party transaction is articulated in a reasonable manner and under contractual terms that could have been agreed by independent parties and that, if these were to be agreed between related parties, they would not create unjustified or disproportionate benefits for EGT to the detriment of Endesa's subsidiary, i.e. Endesa Energía and, ultimately, Endesa.
5. With regard to the purchase of an LNG vessel from Enel in April 2022, made by Endesa Energía on 23 March 2022, it is reasonable to conclude that this transaction is



beneficial for Endesa Energía, as it was carried out under the premises established for this type of transaction and generated a positive margin for the company, without any material risks being taken in the transaction.

The Audit and Compliance Committee concludes that the intra-group LNG sales and purchases, and in particular the purchase of an LNG carrier in April 2022 from Enel Global Trading SpA, are fair and reasonable from the perspective of Endesa and shareholders other than the related party.

## **VII. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transactions.



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**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE ON THE FAIRNESS AND REASONABLENESS OF A RELATED-PARTY TRANSACTION CONSISTING OF THE FORMALISATION OF A CREDIT LINE AND A LONG-TERM LOAN BETWEEN ENEL FINANCE INTERNATIONAL AND ENDESA**

## **REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE ON THE FAIRNESS AND REASONABLENESS OF A RELATED-PARTY TRANSACTION CONSISTING OF THE FORMALISATION OF A CREDIT LINE AND A LONG-TERM LOAN BETWEEN EFINV AND ENDESA**

### **I. INTRODUCTION AND REGULATORY FRAMEWORK**

In accordance with the provisions of section 3 of article 529 duovicies of the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, Endesa's Audit and Compliance Committee issues this Report to assess whether the transaction is fair and reasonable from the point of view of the company and, where appropriate, shareholders other than the related party, and to give an account of the assumptions on which the assessment is based and the methods used.

In accordance with paragraph 3 of Article 529 unvicies, the Report issued and, where appropriate, published by Endesa's Audit and Compliance Committee, must at least include the following information:

- a) Information on the nature of the transaction and the relationship with the related party,
- b) The identity of the related party,
- c) The date and the value or amount of the consideration for the transaction,
- d) Any other information required to assess whether this is fair and reasonable from the point of view of the company and of shareholders who are not related parties

On 21 December 2021, Endesa's Board of Directors approved a new Regulation on related-party transactions, after repealing the Regulation in force. In addition, on 21 December 2021 Endesa's Audit and Compliance Committee approved a new operational procedure for related-party transactions that develops the guidelines contained in the Regulation, defining the operations, functions and responsibilities of the general regime established for the application, approval, publication and supervision of related-party transactions. The regulation has been applied in this case.

On 22 October 2018, Endesa's Board of Directors approved an Additional Procedure for the management of related-party financial transactions with significant shareholders, in which it is determined that in cases where Enel provides financing to Endesa, the applicable conditions need to be equivalent to those previously established between Endesa and non-related credit institutions.

### **II. BRIEF DESCRIPTION OF THE GENERAL TRANSACTION**

#### **a) Background for the transaction**

Enel Finance International N.V (hereinafter **EFINV**), as the financial institution in the Enel Group, is responsible for the management and channelling of the Group's monetary resources. This is how EFINV receives financing from independent financial institutions and fixed income investors and provides financing for the rest of the Enel Group.

Enel Finance International is the Group company that directly accesses long-term capital markets through a European issuance programme. This direct access to investors makes it possible to reduce the pressure on the financial resources requested from banks.

The total number of financing transactions requested by the Endesa Group during the first four months of 2022 amounts to a total of €2,500 million that correspond to financing granted by



independent financial institutions and, now, the possibility of requesting an additional €2,350 million that will correspond to intragroup financing is under analysis. This will enable compliance with Endesa's internal regulations with regard to this issue.

These intra-group transactions for €2,350 million are expected to be formalised by means of a contract for a credit line between EFINV and Endesa for a maximum amount of €700 million with a duration of three years, and with a long-term loan that will be granted by EFINV in favour of Endesa for a total amount of €1,650 million and that will have a duration of five years.

**b) Objective and amount for the transaction.**

The purpose of the transaction is to contract a credit line and a long-term loan between Endesa, S.A. and EFINV. The latter entity will act as a loan provider responsible for providing Endesa with the following financing:

- a) Formalisation by Endesa, S.A. of a Credit Line transaction with Enel Finance International N.V for up to €700 Million and a duration of three years.  
The available balance for the credit line will be remunerated on the basis of an interest rate by applying a spread over the Euribor. Specifically, the spread applied on the Euribor will be 72 basis points (hereinafter referred to as "b.p"). A non-disposition commission of 25 b.p. per year will be charged. This will be calculated as approximately one third of the margin applied to the available balance for the credit line, a common market practice with regard to remuneration for the availability of funds.
- b) Endesa, S.A. will formulate a long-term loan with Enel Finance International N.V for up to €1,650 Million with a duration of five years.  
The remuneration will be determined by a fixed interest rate based on the interest rate published the day before the date of disbursement of the loan agreement on the Bloomberg EURIBOR ICE SWAP RATE 11:00 (hereinafter "ISDAFIX") at 11:15 am Frankfurt time for five-year interest rate swaps plus a credit spread of 63 b.p.

**III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA**

The company providing the services: Enel Finance International N.V is a company 75% owned by Enel Holding Finance S.r.l. and 25% by Enel Spa.

The company receiving the services: Endesa S.A..

The Enel Group is a leading multinational group in the global electricity and gas markets and its main operations are in Europe and Latin America. Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>6</sup>).

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<sup>6</sup> Endesa Group: With regard to the internal regulations associated with related-party transactions, the term "Endesa Group" refers to Endesa, S.A. and its subsidiaries, as described in Article 42 of the Code of Commerce.

#### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN RELATED PARTIES**

##### **1. Operational, technical and/or commercial rationality**

Taking into account Endesa's 2022-2024 business plan and the need to meet investments, operational gaps and other flows envisaged in the plan, Endesa's projects there will be a need for finance. Due to current events in the geopolitical field, prices on the energy futures markets in which Endesa is an active operator have also risen significantly. This means that in certain scenarios Endesa is required to deposit collateral as a guarantee for payment, since the high nominal rates for these transactions may represent a significant financial burden. For all these reasons, annual financing needs should be reviewed within the context of uncertain developments that involve contracting new financing transactions.

By contracting a credit line and a long-term loan with EFINV, Endesa will be able to meet all its obligations and operational needs in a more agile and efficient way, reduce the pressure on banks and achieve quick access to the monetary resources available within the Group which will subsequently save time and resources.

##### **2. Economic reasonableness of the transaction. Methods used**

###### **a) Economic reasonableness of the formalisation by Endesa, S.A. of a Credit Line transaction with Enel Finance International N.V for up to €700 Million.**

Comparable transactions formalised between Endesa and independent third parties were taken into account in order to establish the remuneration for this transaction, which means that the comparable free price (CFP) method was used to assess the market suitability of the remuneration applied between EFINV and Endesa.

With regard to the remuneration to be established for the credit line granted by EFINV to Endesa, the interest rate applicable to the balance disposed of will correspond to that resulting from adding a spread to the Euribor. In this regard, the spread will be the result of the weighted average for the credit spreads required by first-level financial institutions to Endesa for transactions comparable to the credit line granted by EFINV. It should also be noted that the resulting spread will also take into account the commission for opening charged by independent financial institutions to Endesa, prorated during the lifecycle of the credit line analysed, that is, prorated over three years.

Specifically, the spread to be applied on the Euribor reference base is 72 b.p.

Finally, a commission is established for the capital not disposed of by Endesa, corresponding to approximately one third of the margin applied on the principal disposed of. Specifically, the commission for non-disposal applied by EFINV is 0.25% per year.

Analysis of the different components:

Baseline (Euribor): This is a public benchmark so it is considered in itself to be a market reference and it is common practice to use it as a reference in financing operations as a basis for applying a spread.

Spread applied on the reference basis: The spread of 72 p.b. consists of the following:

- The weighted average for spreads applied in similar forward transactions, formalised by Endesa in recent weeks with a number of financial institutions and
- The weighted average for opening commission applied by independent financial institutions to Endesa for credit lines granted, prorated over the duration of the credit line analysed.

To calculate this spread, the main characteristics of forward transactions closed between Endesa and independent third parties were taken into account. These include the type of financing, date of concession, duration, total amount of principal and an opening commission that may be considered to be comparable.

Commission for non-disposal: The commission for non-disposal is established as 0.25% per annum, which corresponds to approximately one third of the margin applied to the capital disposed of (i.e. 72 b.p.) in line with the usual market practice. The commission for weighted non-disposal for comparable transactions with a number of financial institutions is 0.21%. The commission for non-disposal also includes the annualisation of the commission for opening agreed with third parties.

For all these reasons, the benchmark base, the spread applied, its main characteristics and the commission for non-disposal of the Credit Line consistent with the principle of full competition are taken into account, so economic rationality is justified.

**b) Economic reasonableness of the Formalisation by Endesa, S.A. of a long-term loan with Enel Finance International N.V for up to €1,650 Million.**

Comparable transactions formalised between Endesa and independent third parties were taken into account in order to establish the remuneration for this transaction, which means that the comparable free price (CFP) method was used to assess the market suitability of the remuneration applied between EFINV and Endesa.

With regard to the remuneration that will be established for the long-term loan that will be granted by EFINV to Endesa, the applicable fixed interest rate will be the result of the sum of the following concepts:

- The interest rate published the day before the disbursement date for the loan agreement on the *Bloomberg* screen, ISDAFIX at 11:15 am Frankfurt time for five-year interest rate swaps; and
- A credit spread that will be calculated as the weighted average for interest rates applied in similar forward transactions that Endesa has obtained from first-level independent financial institutions. This spread will additionally consider the commission for opening required by Endesa's independent financial institutions prorated over the lifecycle of the credit line analysed, i.e. prorated over five years. Specifically, the resulting spread is 63 b.p.

Analysis of the different components:

Basis (ISDAFIX): This basis is acknowledged as one of the world's leading benchmarks for *swaps* and interest rates. It is common practice for financing operations undertaken between non-financial entities to use this reference as a basis on which to apply a spread.

Spread applied on the reference basis: The spread will be composed of the weighted average for interest rates applied in comparable forward transactions obtained by Endesa from independent financial institutions.

To calculate this spread, the main characteristics of transactions formalised between Endesa and independent third parties were taken into account. These include the type of financing, date of concession, duration, total amount of principal and an opening commission that may be considered to be comparable.



For all these reasons, the benchmark base, the spread applied, its main characteristics and the commission for non-disposal of the Loan are considered to be consistent with the arm's length principle, so economic rationality is justified.

#### **V. INDEPENDENT EXPERT REPORTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

The Audit and Compliance Committee took into account the following report when analysing the transaction:

- Report prepared by Ernst & Young Abogados, S.L.P. on the fairness and reasonableness of the contracts being analysed. Ernst & Young Abogados, S.L.P. issued a report in their capacity as an independent expert, having ascertained that at the date of issue of the Report, EY Abogados did not maintain any sort of commercial relationship with the Enel Group or with the Endesa Group that could compromise its condition as an independent expert for the purposes of issuing this Report or that, in particular, could place them in a situation of conflict of interest to conduct the analysis and draw up the conclusions set out therein.

The Report issued for Endesa's Audit and Compliance Committee concluded that both the formalisation of the credit line and the formalisation of the long-term loan provide a series of advantages for Endesa and as a result, to its shareholders:

- The long-term line of credit and loan enables Endesa to meet all its obligations and operational needs in a more agile and efficient way, gaining access to the Group's monetary resources and saving time and resources;
- Endesa's liquidity is strengthened and it is able to meet its short-term obligations and to optimise financial management by regulating flows of working capital and addressing deviations from the planning for operational flows;
- This diversification makes it possible to reduce the pressure on financial institutions, which also receive requests for other products such as derivatives, guarantees and working capital operations; and
- Finally, in so far as the remuneration established is based on comparable independent remuneration for counterparties, it is consistent with the arm's length principle.

For all these reasons, it can be concluded that Endesa benefits as a participant in the credit line and the long-term loan, that the technical and/or commercial rationality of the transaction is justified, and that the remuneration applied is in line with the arm's length principle (economic rationality).

So the related-party transactions described in this document are fair and reasonable from the point of view of Endesa and shareholders who are not related parties.

#### **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE**

Firstly, it should be stated that the Audit and Compliance Committee consists of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Committee also includes a Proprietary Director representing the controlling shareholder Enel,



which owns 70.10% of Endesa's shareholding. In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The rest of the members of the Audit and Compliance Committee participated and agreed on the content of this Report on the "**formalisation of a line of credit and a long-term loan between EFINV and Endesa**"

Based on the background information detailed above, the Audit and Compliance Committee concludes that:

- This financing enables Endesa to meet its financial obligations by accessing a significant volume of financial resources in a more agile and simplified way, which results in a reduction in costs which would be higher if financing was requested from financial institutions in isolation.
- Contracting a line of credit and a long-term loan with EFINV enables Endesa to meet all its obligations and operational needs in a more agile and efficient way, gaining access to the Group's monetary resources and saving time and resources.
- The diversification of financing enables a reduction on the pressure on financial institutions who also receive requests for other products such as derivatives, guarantees and working capital transactions. A balanced relationship is thus maintained between resources originating in the banking sector and those from the Group.
- Endesa's liquidity is strengthened and it is able to meet its short-term obligations and to optimise financial management by regulating flows of working capital and addressing deviations the planning of operational flows;
- The remuneration established for the transactions is based on comparable independent remuneration for counterparties, it is consistent with the arm's length principle.

The Audit and Compliance Committee concludes that the formalisation of a line of credit and a long-term loan between EFINV and Endesa is fair and reasonable from the point of view of Endesa and its shareholders other than the related party.

## **VII. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transactions.

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**AUDIT AND COMPLIANCE COMMITTEE REPORT ON THE FAIRNESS AND REASONABLENESS OF A RELATED-PARTY TRANSACTION CONSISTING OF THE RENEWAL OF THE INTER-COMPANY CURRENT ACCOUNT CONTRACT BETWEEN ENDESA FINANCIAMIENTO FILIALES S.A. AND ENEL IBERIA S.R.L AND THE AUTHORISATION OF A NEW LIMIT**





## **THE AUDIT AND COMPLIANCE COMMITTEE REPORT ON THE FAIRNESS AND REASONABLENESS OF A RELATED-PARTY TRANSACTION CONSISTING OF THE RENEWAL OF THE INTER-COMPANY CURRENT ACCOUNT CONTRACT BETWEEN ENDESA FINANCIAMIENTO FILIALES S.A. AND ENEL IBERIA S.R.L AND THE AUTHORISATION OF A NEW LIMIT**

### **I. INTRODUCTION AND REGULATORY FRAMEWORK**

In accordance with the provisions of section 3 of article 529 duovicies of the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, Endesa's Audit and Compliance Committee issues this Report to assess whether the transaction is fair and reasonable from the point of view of the company and, where appropriate, shareholders other than the related party, and to give an account of the assumptions on which the assessment is based and the methods used.

In accordance with paragraph 3 of Article 529 unvicies, the Report issued and, where appropriate, published by Endesa's Audit and Compliance Committee, must at least include the following information:

- a) Information on the nature of the transaction and the relationship with the related party,
- b) The identity of the related party,
- c) The date and the value or amount of the transaction,
- d) Any other information required to assess whether this is fair and reasonable from the point of view of the company and of shareholders who are not related parties

On 21 December 2021, Endesa's Board of Directors approved a new Regulation on related-party transactions, after repealing the Regulation in force. In addition, on 21 December 2021 Endesa's Audit and Compliance Committee approved a new operational procedure for related-party transactions that develops the guidelines contained in the Regulation, defining the operations, functions and responsibilities of the general regime established for the application, approval, publication and supervision of related-party transactions. The regulation has been applied in this case.

### **II. BRIEF DESCRIPTION OF THE GENERAL TRANSACTION**

#### **a) Background for the transaction**

Under the framework of global services, Endesa and Enel Iberia signed a "Services Agreement" (already reported by this Audit and Compliance Committee, following a report by an independent third party, and approved by the Board of Directors), through which Endesa provides operational assistance services to Enel Iberia. These services include tax services, legal services and collection and payment process management services, among others. To provide these services, Endesa receives payment equivalent to costs plus a margin.

The Endesa Group company, Endesa Financiación Filiales (ENFIFI), is a wholly owned Endesa subsidiary, which acts as a financial vehicle through which Endesa manages all Endesa Group current accounts. Thus, Endesa channels all treasury services through ENFIFI.

The transaction and object of this report is reported, analysing the renewal of the inter-company current account (ICC) contract between ENFIFI and Enel Iberia, and modifies its limit from Euro 150 million to Euro 25 million.

The ICC is a transactional service through which Endesa, via ENFIFI, makes collections and payments on behalf of Enel Iberia, reflecting the balances of these activities in the aforementioned ICC and settling balances on a monthly basis so that the ICC is used



exclusively for operational management of collection and payment flows, not inter-company financing.

**b) Purpose of the transaction.**

The purpose of the transaction is the 2022 renewal of the Inter-Company Current Account contract between Endesa Financiación Filiales and Enel Iberia, originally signed in 2011, for a period of five years, as well as the modification of its limit from Euro 150 million to Euro 25 million.

On a daily basis, Enel Iberia will inform Endesa Financiación Filiales of its cash position which will be covered by Endesa Financiación Filiales if it is loss-making or transferred to Endesa Financiación Filiales if in surplus, transactions which will at all times be made in the financial institutions agreed by the parties. Endesa Financiación Filiales will also act as Enel Iberia's collection and payment agent in its treasury transactions. These monetary movements, as well as the payment, invoicing and supply movements that may take place between the parties, will compose the ICC's movements. The debtor will pay the creditor the entire existing balance receivable within the calendar month.

The average balance of the ICC in each interest period accrues interest in favour of Endesa Financiación Filiales or Enel Iberia depending on its position (creditor or debtor), and is calculated on the basis of a 360-day year. The applicable interest rate will be the same for both counterparties and will be equal to the average cost of gross debt for the Endesa Group, published by the Finance Directorate in the immediately preceding month. It should be noted that the purpose of the Contract is exclusively the operational management of collection and payment flows, not the financing of Enel Iberia.

It is considered appropriate to reduce the ICC limit from Euro 150 million to Euro 25 million, taking past balances into account, as well as the need to leave a sufficient margin of safety to cover exceptional circumstances that cannot be foreseen in advance.

**III. IDENTIFICATION OF THE PARTY RELATED TO ENDESA**

- ✓ On the one hand, **Endesa Financiación Filiales S.A.** is a company fully owned subsidiary and is thus dependent on Endesa S.A.
- ✓ On the other, **Enel Iberia S.R.L** is a fully owned subsidiary of Enel SpA, and is thus dependent on that company.

The Enel Group is a leading multinational group in the global electricity and gas markets and its main operations are in Europe and Latin America.

Enel SpA is the sole shareholder of Enel Iberia S.L, which is in turn a shareholder of Endesa S.A with a 70.101% stake. Related-party transactions are those entered into by Endesa or its subsidiaries with Endesa's shareholders who hold 10% or more of the voting rights or who are represented on the Board of Directors, as well as with any other parties considered as parties related to Endesa, in compliance with the International Accounting Standards. Therefore, all transactions entered into by Endesa or its subsidiaries and Enel or its subsidiaries will be considered related-party transactions (excluding the Endesa Group<sup>7</sup>).

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<sup>7</sup> Endesa Group: With regard to the internal regulations associated with related-party transactions, the term "Endesa Group" refers to Endesa, S.A. and its subsidiaries, as described in Article 42 of the Code of Commerce.

#### **IV. ANALYSIS OF THE TRANSACTION FROM THE POINT OF VIEW OF THE INTEREST OF ENDESA AND OF SHAREHOLDERS OTHER THAN RELATED PARTIES**

##### **1. Operational, technical and/or commercial rationality**

The services regulated in the "Service Contract" between Endesa and Enel Iberia include a group treasury management service by Endesa. The ICC is a transactional instrument which is indispensable for the financial services for which Enel Iberia engaged Endesa under the "Service Contract" and is efficient both in terms of procedures and internal costs.

From the analysis of cash flows between Endesa Financing Subsidiaries and Enel Iberia based on historical figures and estimates from the last two years, it is considered reasonable to reduce the original ICC contract limit (Euro 150 million) to Euro 25 million, which provides a sufficient margin of safety to cover exceptional circumstances that cannot be foreseen in advance.

##### **2. Economic reasonableness of the transaction. Methods used**

For receivable and payable ICC balances, the interest rates applied are updated every six months based on the average cost of the Group's gross debt (inter-company debt and Group debt to third parties). Both types are equivalent in both the debtor and creditor positions. The interest rate applied is based on the average cost of Endesa's gross debt, which consists of both transactions with third parties, arm's length references, and two inter-company transactions with Enel group companies, whose market conditions have been validated by an independent expert.

Considering the foregoing, it can be concluded that the payment established is consistent with the arm's length principle and, therefore, the economic rationality of the transaction is justified.

#### **V. INDEPENDENT EXPERT REPORTS ISSUED AT THE REQUEST OF THE AUDIT AND COMPLIANCE COMMITTEE**

The Audit and Compliance Committee took into account the following report when analysing the transaction:

- Report prepared by Ernst & Young Abogados, S.L.P. on the fairness and reasonableness of the contracts being analysed. Ernst & Young Abogados, S.L.P. issued a report on behalf of EY Abogados, in their capacity as independent expert, having ascertained that on the date of issue of the report, EY Abogados did not have any sort of commercial relationship with the Enel Group or the Endesa Group that could have compromised its capacity as independent expert for the purposes of issuing this report or that, in particular, could indicate a conflict of interest to conduct the analysis and draw up the conclusions set out therein.

The report issued to Endesa's Audit and Compliance Committee concludes that Endesa obtains a profit under the operation analysed (rationality of the technical and/or commercial operation), and that the remuneration applied (both in the ICC itself and in the services for which it is an instrument) is in line with the arm's length principle (economic rationality).



## **VI. CONCLUSION OF THE AUDIT AND COMPLIANCE COMMITTEE**

First, it must be stated that the Audit and Compliance Committee is made up of four non-executive members of the Board of Directors, three of whom (75%) are independent. The Committee also includes a Proprietary Director representing the controlling shareholder Enel, which owns 70.10% of Endesa's shareholding. In accordance with paragraph 3 of Article 529 duovicies of the Corporate Enterprises Act, Alberto de Paoli, Proprietary Director, representative of Enel, has not participated in the preparation of this Report.

The rest of the members of the Audit and Compliance Committee have participated and agreed on the contents of this Report on the "**renewal of the inter-company current account contract between Endesa Financiación Filiales S.A. and Enel Iberia S.R.L and the authorisation of a new limit**".

Based on the background information detailed above, the Audit and Compliance Committee concludes that:

- The ICC is a transactional instrument which is indispensable for the financial services for which Enel Iberia engaged Endesa under the "Service Contract" which is efficient both in terms of procedures and internal costs.
- The reduced inter-company current account limit is consistent with past amounts and estimates made on cash flows over the last two years as well as in the average balance available for the last 24 months.
- The interest rate applied is based on the average cost of Endesa's gross debt, which consists of both transactions with third parties, arm's length references, and two inter-company transactions with Enel group companies, whose market conditions have been validated by an independent expert.

The Audit and Compliance Committee concludes that the renewal of the inter-company current account contract between Endesa Financiación Filiales S.A. and Enel Iberia S.R.L. and the authorisation of a new limit is fair and reasonable from the point of view of Endesa and shareholders apart from the related party.

## **VII. CONCLUSION OF THE BOARD OF DIRECTORS**

Endesa's Board of Directors, following a favourable report from the Audit and Compliance Committee, has unanimously approved the transactions.