



## REPORT ON THE SIXTH ITEM ON THE AGENDA

### **Appointment of the External Auditor for the period 2020-2028 and determination of the related fees**

Dear Shareholders,

with the approval of 2019 financial statements by the Shareholders' Meeting of Enel that will be called in 2020, the external audit mandate conferred by the Shareholders' Meeting held on April 29, 2011 to EY S.p.A. for the nine-year period 2011-2019 will expire.

Therefore, the Board of Directors submits to the approval of this Shareholders' Meeting the following justified proposal presented by the Board of Statutory Auditors pursuant to Article 13, paragraph 1, and Article 19, paragraph 1, letter f), of Legislative Decree no. 39 of January 27, 2010, regarding the appointment of the external auditor of Enel S.p.A. for the period from 2020 to 2028, whose text is reported below.

*"Dear Shareholders,*

*with the approval of 2019 financial statements by the Shareholders' Meeting of Enel S.p.A. ("Enel" or the "Company") that will be called in 2020, the external audit mandate conferred by the Shareholders' Meeting held on April 29, 2011 to EY S.p.A. ("EY") for the nine-year period 2011-2019 will expire.*

*Pursuant to article 17, paragraph 1, of Legislative Decree no. 39, of January 27, 2010 (hereinafter "Decree no. 39/2010"), such mandate lasts nine financial years and cannot be further extended or conferred again to the same EY before four financial years starting from the expiry of the present mandate. As of now, it is therefore necessary, for the reasons illustrated below, to provide for the appointment of the new external auditor for the period from 2020 to 2028.*

*In this respect, it should be noted that the regulation applicable to Enel regarding statutory auditing is set forth in Regulation (EU) no. 537/2014 (on specific requirements regarding statutory audit of "public-interest entities", category which comprises companies – as Enel – whose securities are admitted to trading on a regulated market of the European Union) and in the above-mentioned Decree no. 39/2010 (which was significantly amended by Legislative Decree no. 135 of July 17, 2016, which implemented Directive 2014/56/EU). In*



*particular, the new regulation provides, inter alia, that the incoming external auditor cannot provide certain services even during the financial year immediately preceding the beginning of the audited period (so called “cooling in period”). Such services are indicated by Article 5, paragraph 1, sub-paragraph 2, letter e), of Regulation (EU) no. 537/2014, i.e. the services of “designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems”.*

*In order to (i) monitor the compliance with the above-mentioned prohibition, (ii) facilitate the handover and allow the incoming auditor to become aware of the most important issues of a Group of the size and complexity of Enel in the last year of operation of the outgoing auditor and (iii) manage more effectively the appointment of the new auditor by the companies within the scope, Enel's Board of Statutory Auditors shared the opportunity to bring forward by one year – compared to EY's mandate expiry date – the execution of the selection procedure for the assignment of the audit engagement for the financial years between 2020 and 2028, in line with the approach followed by major Italian and foreign companies.*

*For this purpose, a specific selection procedure was carried out, in which qualified auditing firms took part and during which, for each bid submitted, were assessed the most significant technical and economic parameters, under supervision of the Board of Statutory Auditors, in compliance with the provisions of Article 19, paragraph 1, letter f), of Decree no. 39/2010 and Article 16 of Regulation (EU) no. 537/2014. On the basis of the combined provisions of these rules, the Board of Statutory Auditors – in its capacity as “Committee for Internal Control and Auditing (Audit Committee)” – is indeed responsible for the procedure aimed at selecting the external auditor, as well as preparing a justified recommendation to be submitted to the Shareholders' Meeting and containing at least two possible alternatives for the appointment among the audit firms that participated in the procedure, accompanied by a duly justified preference for one of the two.*

*In this respect, it should be noted that the Board of Statutory Auditors has carried out its activity in compliance with the aforementioned relevant laws and discussed such issue during eight meetings, which were held between March and December 2018.*

*With the aim of optimizing the activities of the external auditor for the entire Enel Group, the perimeter of the bid procedure included all the companies directly and/or indirectly*



controlled, even jointly, by or associated with Enel, including those qualified as “public interest entities” pursuant to the Regulation (EU) no. 537/2014; for the latter, full decision-making autonomy was granted to the respective supervisory bodies, which therefore carried out their own separate selection procedure or from which a specific mandate was received to act on their behalf.

It should be noted that the selection was made through an "online" competitive procedure, using a dedicated IT platform that allowed to track all correspondence and documentation exchanged among Enel and the participating auditors.

Having said the above, a summary of the main activities that have characterized the selection procedure is described below:

- the Board of Statutory Auditors has preliminarily shared with the competent company structures the following minimum requisites for the inclusion of participants in the list of qualified suppliers for the performance of the activities subject to the selection procedure: (i) enrolment in the register of statutory auditors set up by the Ministry of the Economy and Finance pursuant to Decree no. 39/2010; (ii) adequate references, comprising at least two referring to statutory audit activities carried out in the three-year period 2015-2017 for companies belonging to the FTSE-MIB index; (iii) having carried out in the three-year period 2015-2017, directly or through entities of the network to which they belong, at least two statutory audit engagements for the consolidated financial statements of companies included in the “EUROSTOXX Utilities” index as of December 31, 2017, other than those belonging to the FTSE-MIB index and to the Enel Group;
- on April 26, 2018, on the basis of the aforementioned requisites, a special qualification invitation was published, in relation to which the auditing companies Deloitte & Touche S.p.A., KPMG S.p.A. and PriceWaterhouseCoopers S.p.A. presented a request for qualification and were found eligible;
- on July 4, 2018, the Board of Statutory Auditors assessed and approved the technical and economic assessment criteria, having recognized their suitability to allow an assessment of the bids of the contestants based on analytical and objective judgements;
- on July 20, 2018, a letter of invitation to bid was sent to the mentioned qualified contestants (Deloitte & Touche S.p.A., KPMG S.p.A. and PriceWaterhouseCoopers S.p.A.), which all submitted their technical and financial bids within the set deadlines. In



*summary, the invitation letter included details regarding mainly the following aspects and/or documents:*

*a) subject of the procedure:*

- ✓ statutory audit of the annual consolidated and condensed interim consolidated financial statements of Enel and, where required, of other companies within the Group, as well as the separate financial statements of Enel and other Group companies for the financial years between the nine-year period 2020 and 2028;*
- ✓ assessment of the internal controls on financial reporting pursuant to the Section 404 of the Sarbanes-Oxley Act ("SOX"), applicable to certain companies of the Enel Group with registered office in South America and with shares listed on the New York Stock Exchange, for the years between 2020 and 2028;*
- ✓ additional services (hereinafter "Additional Services") closely connected with the statutory audit (to be requested in relation to the obligations prescribed by law, regulations and consolidated practice as well as to the agreed upon verification procedures), which may be activated on an optional basis by Enel Group companies during the financial years between 2020 and 2028;*

*b) description of the expected course of the procedure: administrative phase, technical phase, economic phase, conditional and final awarding phase and relative procedure for the submission of the necessary documentation;*

*c) technical and economic assessment criteria and the related awarding criteria;*

*d) technical specification, containing a detailed description of the contents and technical-qualitative characteristics of the audit activities. It should be noted that, in order to ensure the comparability of the bids and at the same time guarantee a high technical and quality standard of the same, it was requested to provide a mix of professional figures with a greater weight of partners and managers (i.e.: Partner 10%; Manager 30%; Senior 35%; Assistant 25%) with respect to what is set out in the Consob Communication no. 96003556 of April 18, 1996 (i.e.: Partner between 4% and 7%; Manager between 14% and 17%; Senior between 25% and 35%; Assistant between 41% and 57%), also taking into account the current widespread use of advanced techniques and tools of "data analytics" for the collection, analysis and control of information functional to the performance of audit activities;*

*e) draft of the "Multi-Corporate Global Framework Agreement";*

- *in performing its duties, the Board was assisted by a Judging Committee – made up of representatives from the company departments more directly involved in the selection procedure – which carried out the technical and economic assessment of the bids and prepared the final ranking, submitting it to the Board of Statutory Auditors for approval;*
- *the Judging Committee operated on the basis of assessment criteria defined in advance and communicated to the contestants in the letter of invitation to submit their bids; these criteria provided for the award of a maximum of 100 points, of which 70 points related to the technical assessment (with the additional provision of a minimum score of 55 points to be admitted to the next economic phase) and 30 points related to the economic assessment. For the technical assessment, the elements taken into consideration were: (i) the effort in hours for statutory audit activities; (ii) the effort in hours for SOX audit activities; (iii) the quality of the team engaged; and (iv) the operational approach to the engagement. In particular, it should be noted that the 70 points relating to the technical assessment phase were distributed as follows: (i) 25 points for the “statutory audit effort” element, which was assessed with respect to a reference effort in hours identified by Enel and to the effort in hours proposed by bidders for the three-year period 2020 - 2022 and for the subsequent six-year period 2023 - 2028, in order to take into account the greater knowledge acquired in the previous years regarding the companies of the Enel Group, the processes and the systems applied; (ii) 10 points for the “SOX audit effort” element, which was assessed using methods similar to those envisaged for the “statutory audit effort” element; (iii) 20 points for the “quality of the team engaged” element, which was assessed with regard to the professional qualities and experiences of the engaged partners and managers (especially for some countries and companies of major importance for the Enel Group), as resulting from the “curricula” submitted; (iv) 15 points for the “operational approach to the engagement” element, described in a specific report presented by the contestants, which was assessed with reference to the risk analysis methodologies and procedures adopted for the performance of the engagement, with particular reference also to the technical tools used in terms of innovation and level of digitalization of the processes;*
- *on November 15, 2018 the Board of Statutory Auditors examined and approved the results of the technical evaluation of the bids – contained in a specific report prepared*

by the Judging Committee, indicating the scores obtained by each contestant – starting this way the next economical phase;

- on December 13, 2018 the Board of Statutory Auditors examined and approved (i) the results of the economic evaluation of the bids, contained in a specific report prepared by the Judging Committee and (ii) the related final ranking (technical and economical), from which the following two contestants in the ranking arise, with regard to the entire scope of consolidation of Enel Group:

Services	KPMG S.p.A.		Deloitte & Touche S.p.A.	
	Effort (hrs) 2020-2028	Fees (€) 2020-2028	Effort (hrs) 2020-2028	Fees (€) 2020-2028
Statutory Audit	1,651,725	77,742,280	2,039,400	112,211,452
SOX Audit	282,633	9,597,201	399,540	17,149,291
Additional Services (*)	93,954	11,822,585	112,998	23,699,776
<b>Enel Group Total</b>	<b>2,028,312</b>	<b>99,162,066</b>	<b>2,551,938</b>	<b>153,060,519</b>

(\*) Include also the fees for Additional Services (without specifying the effort), amounting respectively to € 7,685,047.26 for KPMG S.p.A. and € 17,676,001.66 for Deloitte & Touche S.p.A.

The consideration is determined according to the criteria set out in Consob Communication n. 96003556 of April 18, 1996 and may be adjusted for each country if significant changes should occur in the relative cost of living index; such index is the index of the country whose currency is specified in the relevant agreement (for Italy, the index of reference is ISTAT or another equivalent index in the euro area).

For the purposes of any adjustment, in December of each year (starting in December 2021) it shall be assessed if any variation of the foregoing index in respect of the month of December 2020 (i.e. in the month of December of the year following the one in which the last adjustment of the fees was made) has occurred; if such variation is greater than 7% the remuneration shall be adjusted, with effect from the following year, of an amount equal to 65% of the variation of the index.

The above consideration is subject to the variation provided by the aforementioned Consob Communication n. 96003556 of April 18, 1996, which refers to “the occurrence of exceptional and/or unforeseeable circumstances” (as a consequence of which the external auditing firm shall formulate a supplement to its proposal);

- *on December 13, 2018, at the end of selection procedure, the Board of Statutory Auditors has therefore resolved:*
  - ✓ *to propose, pursuant to Article 16 of Regulation (EU) no. 537/2014, to the Shareholders' Meeting of Enel to appoint, on the basis of the offers submitted by the same, either KPMG S.p.A. or Deloitte & Touche S.p.A. as external auditor for the period from 2020 to 2028;*
  - ✓ *to express to the same Shareholders' Meeting its justified preference for the offer submitted by KPMG S.p.A., which is characterized by a higher technical score and is the most economically advantageous.*

*In order to submit such proposal to the Shareholders' Meeting, the Board of Statutory Auditors obtained from the contestants KPMG S.p.A. and Deloitte & Touche S.p.A the communications required by Decree no. 39/2010 on the absence of circumstances that could compromise the independence of the auditor starting from the date of appointment by the Shareholders' Meeting.*

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*In light of the foregoing, the Board of Statutory Auditors, at the end of the selection procedure, in relation to the appointment of Enel's external auditor for the period from 2020 to 2028 and, with particular reference to the following activities:*

- *the statutory audit of Enel's stand-alone financial statement, in relation to which the auditing firm shall issue the specific report prescribed by Article 14, paragraph 1, letter a), of Decree no. 39/2010 and by Article 10 of Regulation (EU) no. 537/2014;*
- *the statutory audit of the consolidated financial statements of the Enel Group in relation to which the auditing firm shall issue the specific report prescribed by Article 14, paragraph 1, letter a), of Decree no. 39/2010 and by Article 10 of Regulation (EU) no. 537/2014;*
- *the limited review of the condensed interim consolidated financial statements of Enel Group, in compliance with Consob Communication no. 97001574 of February 20, 1997 and Consob Resolution no. 10867 of July 31, 1997;*
- *the certification, during the financial year, of the correct Company bookkeeping and the correct recording of the facts in the Company's accounts, pursuant to Article 14, paragraph 1, letter b), of Decree no. 39/2010;*

- other assignments closely related to the statutory audit activity to be assigned in relation to the obligations prescribed by law, regulations and consolidated practice as well as to agreed upon verification procedures;

**CONSIDERED**

- that pursuant to Article 16, paragraph 2, second subparagraph of Regulation (EU) no. 537/2014, the justified proposal of the Board of Statutory Auditors to the Shareholders' Meeting should contain at least two choices for the audit appointment;
- that the same Article 16, paragraph 2, second subparagraph of Regulation (EU) no. 537/2014 requires the Board of Statutory Auditors to express a duly justified preference for one of the two choices;

**SUBMITS**

to the Shareholders' Meeting of Enel – pursuant to Article 16, paragraph 5, of Regulation (EU) no. 537/2014 as well as to Article 13, paragraph 1, and Article 17, paragraph 1 of Decree no. 39/2010 – alternatively, the proposals for the 2020-2028 period submitted by KPMG S.p.A. and by Deloitte & Touche S.p.A., whose cost and effort (hours) components are indicated in the following table:

Services	KPMG S.p.A.		Deloitte & Touche S.p.A.	
	Effort (hrs) 2020-2028	Fees (€) 2020-2028	Effort (hrs) 2020-2028	Fees (€) 2020-2028
Statutory Audit	71,032	3,313,643	56,631	3,255,150
Additional Services (*)	22,277	1,039,222	20,916	1,202,252
<b>Enel S.p.A. Total</b>	<b>93,309</b>	<b>4,352,865</b>	<b>77,547</b>	<b>4,457,402</b>

(\*) Include: "Unbundling" (i.e. statutory audit on the separate accounts) pursuant to ARERA Resolution n. 137/2016, audit on the sustainability report and certification of compliance of the information provided by the non-financial statement (DNF).

**EXPRESSES**

its preference for KPMG S.p.A., whose bid received the highest technical score and is also economically most advantageous.





## DECLARES

*That the above proposal is not influenced by third parties and that none of the clauses of the sort set forth in Article 16, paragraph 6, of Regulation (EU) no. 537/2014 <sup>(1)</sup> has been applied.*

*In relation with the mechanism of carrying out the Shareholders' Meeting, Shareholders are informed that the above-mentioned proposal of the Board of Statutory Auditors entails that the proposal regarding the appointment of KPMG S.p.A. as external auditor will be voted first and, only if such proposal will not reach a sufficient number of votes for its approval, the proposal regarding the appointment of Deloitte & Touche S.p.A. will be voted".*

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<sup>(1)</sup> Article 16, paragraph 6, of Regulation (EU) no. 537/2014 states that "any clause of a contract entered into between a public-interest entity and a third party restricting the choice by the general meeting of shareholders or members of that entity, as referred to in Article 37 of Directive 2006/43/EC to certain categories or lists of statutory auditors or audit firms, as regards the appointment of a particular statutory auditor or audit firm to carry out the statutory audit of that entity shall be null and void".